

CITY OF WHITEWOOD

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2022



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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CITY OF WHITEWOOD

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor’s Report	3-4
<i>Government-wide Financial Statements:</i>	
Statement of Net Position	5
Statement of Activities	6
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet	7-8
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position	9
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances ...	10-13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities	14
Proprietary Funds Statement of Net Position.....	15-16
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position.....	17
Proprietary Funds Statement of Cash Flows.....	18
Notes to the Financial Statements.....	19-39
<i>Single Audit Section:</i>	
Schedule of Expenditures of Federal Awards	41
<i>Other Reports:</i>	
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 <i>Government Auditing Standards</i>	43-44
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	45-47
Schedule of Findings and Questioned Costs.....	48-50
<i>Management Response:</i>	
Schedule of Prior Findings	52
Corrective Action Plan	53



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INDEPENDENT AUDITOR'S REPORT

City Council
City of Whitewood
Whitewood, South Dakota

Report on Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF WHITEWOOD** (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 financial position of the governmental activities, the business-type activities, and each major fund of the City, as of December 31, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Unmodified 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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 judgment, 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 other internal control matters that we identified during the audit.

Required Supplementary Information

Management has omitted management's discussion and analysis, budgetary comparison information, and pension disclosure information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for 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 States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2023 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.



KETEL THORSTENSON, LLP
Certified Public Accountants

CITY OF WHITEWOOD

**STATEMENT OF NET POSITION
DECEMBER 31, 2022**

	GOVERNMENTAL <u>ACTIVITIES</u>	BUSINESS-TYPE <u>ACTIVITIES</u>	<u>TOTAL</u>
Assets:			
Cash and Investments (Note 2)	\$ 189,747	\$ 721,063	\$ 910,810
Receivables (Note 11)	290,963	56,736	347,699
Restricted Cash and Investments (Notes 2 and 5)	49,473	61,020	110,493
Net Pension Asset (Note 8)	1,483	319	1,802
Capital Assets (Note 7):			
Land	1,946,241	23,253	1,969,494
Other Capital Assets, Net of Depreciation	1,997,709	3,341,274	5,338,983
TOTAL ASSETS	4,475,616	4,203,665	8,679,281
Deferred Outflows of Resources			
Pension Related Deferred Outflows of Resources (Notes 3 and 8)	134,980	29,065	164,045
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,610,596	\$ 4,232,730	\$ 8,843,326
Liabilities:			
Accounts Payable	\$ 126,851	\$ 6,010	\$ 132,861
Other Current Liabilities	12,146	40,934	53,080
Noncurrent Liabilities (Note 5):			
Due Within One Year	68,395	25,116	93,511
Due in More Than One Year	1,024,949	929,616	1,954,565
TOTAL LIABILITIES	1,232,341	1,001,676	2,234,017
Deferred Inflows of Resources:			
Pension Related Deferred Inflows of Resources (Notes 3 and 8)	86,248	18,571	104,819
Net Position:			
Net Investment in Capital Assets	2,863,179	2,412,227	5,275,406
Restricted for:			
Debt Service	144,827	61,020	205,847
Library	55,687	-	55,687
Facilities and Promoting the City	186,762	-	186,762
Pension-SDRS (Note 8)	50,215	10,813	61,028
Unrestricted	(8,663)	728,423	719,760
TOTAL NET POSITION	3,292,007	3,212,483	6,504,490
TOTAL LIABILITIES AND NET POSITION	\$ 4,610,596	\$ 4,232,730	\$ 8,843,326

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

Functions/Programs	Expenses	--- Program Revenues ---			Net (Expense) Revenue and		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 256,695	\$ 15,222	\$ -	\$ -	\$ (241,473)	\$ -	\$ (241,473)
Public Safety	434,496	190	-	-	(434,306)	-	(434,306)
Public Works	331,083	92,662	-	1,293,287	1,054,866	-	1,054,866
Culture and Recreation	157,577	4,594	55,188	-	(97,795)	-	(97,795)
Conservation and Development	28,037	-	-	-	(28,037)	-	(28,037)
Miscellaneous	281,897	315,922	-	-	34,025	-	34,025
Interest on Long Term Debt	34,708	-	-	-	(34,708)	-	(34,708)
Total Governmental Activities	1,524,493	428,590	55,188	1,293,287	252,572	-	252,572
Business-Type Activities:							
Water	304,240	298,374	-	-	-	(5,866)	(5,866)
Sewer	292,435	255,517	-	-	-	(36,918)	(36,918)
Total Business-Type Activities	596,675	553,891	-	-	-	(42,784)	(42,784)
Total Primary Government	\$ 2,121,168	\$ 982,481	\$ 55,188	\$ 1,293,287	252,572	(42,784)	209,788
General Revenues:							
Taxes:							
Property Taxes					377,907	-	377,907
Sales Taxes					409,781	-	409,781
State Shared Revenue					42,433	-	42,433
Unrestricted Investment Earnings					2,870	1,856	4,726
Miscellaneous Revenue					63,239	-	63,239
Transfers (Note 6)					232,201	(232,201)	-
Total General Revenue					1,128,431	(230,345)	898,086
Change in Net Position					1,381,003	(273,129)	1,107,874
Net Position, Beginning					1,911,004	3,485,612	5,396,616
Net Position, Ending					\$ 3,292,007	\$ 3,212,483	\$ 6,504,490

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

	General Fund	Library Fund	Additional Sales Tax Fund	Economic Development Fund
Assets				
101 Cash and Investments (Note 2)	\$ -	\$ 64,635	\$ -	\$ 115,125
107 Restricted Cash and Investments (Notes 2 and 5)	14,718	-	-	-
108 Property Taxes Receivable	-	-	-	-
115 Accounts Receivable	94,042	-	-	-
121 Special Assessments Receivable - Current	-	-	-	-
123 Special Assessments Receivable - Deferred	-	-	-	-
128 Notes Receivable (Note 11)	-	-	-	71,637
131 Advance to Other Funds (Note 6)	85,177	-	-	-
132 Due From Federal/State Government	36,759	-	-	-
Total Assets	\$ 230,696	\$ 64,635	\$ -	\$ 186,762
Liabilities, Deferred Inflows of Resources and Fund Balances				
<i>Liabilities</i>				
202 Accounts Payable	\$ 124,667	\$ 645	\$ 1,539	\$ -
208 Advance From General Fund (Note 6)	-	7,668	-	-
216 Accrued Wages Payable	9,261	635	-	-
220 Customer Deposits	2,250	-	-	-
Total Liabilities	136,178	8,948	1,539	-
<i>Deferred Inflows of Resources (Note 3)</i>				
246 Unavailable Revenue - Special Assessments	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
<i>Fund Balances (Deficit):</i>				
<i>Nonspendable Fund Balances</i>				
263.01 Interfund Advance	85,177	-	-	-
<i>Restricted Fund Balances</i>				
264.01 Debt Service	14,718	-	-	-
264.04 Facilities and Promoting the City	-	-	-	186,762
264.05 Library	-	55,687	-	-
<i>Committed Fund Balances</i>				
265.04 Street/Sidewalk and Park Improvements	61,396	-	-	-
<i>Assigned Fund Balances</i>				
266.01 Subsequent Years Budget	190,066	-	-	-
267.00 Unassigned Fund Balances	(256,839)	-	(1,539)	-
Total Fund Balances (Deficit)	94,518	55,687	(1,539)	186,762
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 230,696	\$ 64,635	\$ -	\$ 186,762

The accompanying notes are an integral part of the financial statements.

Special Assessment Debt Service <u>Fund</u>	TIF #2 Debt Service <u>Fund</u>	Total Governmental <u>Funds</u>
\$ -	\$ 9,987	\$ 189,747
34,755	-	49,473
-	-	-
-	-	94,042
11,083	-	11,083
77,442	-	77,442
-	-	71,637
-	-	85,177
-	-	36,759
\$ 123,280	\$ 9,987	\$ 615,360

\$ -	\$ -	\$ 126,851
77,509	-	85,177
-	-	9,896
-	-	2,250
<u>77,509</u>	<u>-</u>	<u>224,174</u>

<u>88,527</u>	<u>-</u>	<u>88,527</u>
<u>88,527</u>	<u>-</u>	<u>88,527</u>

-	-	85,177
31,595	9,987	56,300
-	-	186,762
-	-	55,687
-	-	61,396
-	-	190,066
(74,351)	-	(332,729)
<u>(42,756)</u>	<u>9,987</u>	<u>302,659</u>
\$ 123,280	\$ 9,987	\$ 615,360

CITY OF WHITEWOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2022**

Total Fund Balances - Governmental Funds	\$ 302,659
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,943,950
Pension related deferred outflows are components of pension liability and therefore are not reported in the funds.	134,980
Long-term liabilities, including bonds payable, tax increment financing obligations, and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(1,093,344)
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	1,483
Assets, such as delinquent taxes receivable, special assessments receivable and due from governments, are not available to pay for current period expenditures and therefore are deferred in the funds.	88,527
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.	(86,248)
Total Net Position - Governmental Funds	\$ 3,292,007

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Revenue	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>
<i>Taxes:</i>				
311 General Property Taxes	\$ 282,252	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	378,033	-	31,748	-
319 Penalties and Interest on Delinquent Taxes	647	-	-	-
320 Licenses and Permits	15,222	-	-	-
<i>Intergovernmental Revenue:</i>				
330 Intergovernmental Revenue	-	55,188	-	-
334 State Grants	520,501	-	-	-
331 Federal Grants	755,567	-	-	-
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	2,768	-	-	-
335.03 Liquor Tax Reversion	6,110	-	-	-
335.04 Motor Vehicle Licenses	12,731	-	-	-
335.08 Local Government Highway and Bridge Fund	12,717	-	-	-
335.20 Other	33,555	-	-	-
<i>Charges for Goods and Services:</i>				
344 Sanitation	61,682	-	-	-
345 Health	35	-	-	-
346 Culture and Recreation	4,559	-	-	-
349 Other	5,532	-	-	-
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	140	-	-	-
359 Other	50	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	1,518	1,171	139	35
363 Special Assessments	13,080	-	-	-
367 Donations	4,675	-	-	-
368 Liquor Operating Agreement Income	315,922	-	-	-
369 Miscellaneous Revenue	10,900	-	-	1,086
Total Revenue	2,438,196	56,359	31,887	1,121

Special Assessment Debt Service Fund	TIF #2 Debt Service Fund	Total Governmental Funds
\$ -	\$ 95,480	\$ 377,732
-	-	409,781
-	-	647
-	-	15,222
-	-	55,188
-	-	520,501
-	-	755,567
-	-	2,768
-	-	6,110
-	-	12,731
-	-	12,717
-	-	33,555
-	-	61,682
-	-	35
-	-	4,559
-	-	5,532
-	-	140
-	-	50
7	-	2,870
16,321	-	29,401
-	-	4,675
-	-	315,922
-	-	11,986
16,328	95,480	2,639,371

CITY OF WHITEWOOD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	109,984	-	-	-
412 Executive	6,298	-	-	-
413 Elections	631	-	-	-
414 Financial Administration	72,171	-	-	-
419 Other	55,866	-	-	-
<i>Public Safety:</i>				
421 Police	395,597	-	-	-
423 Protective Inspection	16,106	-	-	-
<i>Public Works:</i>				
431 Highway and Streets	190,249	-	-	-
432 Sanitation	56,939	-	-	-
<i>Culture and Recreation:</i>				
452 Parks	95,529	-	-	-
455 Library	-	59,312	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	-	-	23,729	-
470 Debt Service	14,718	-	-	-
485 Capital Outlay	1,810,212	4,000	82,077	-
<i>Miscellaneous:</i>				
499 Liquor Operating Agreements	281,897	-	-	-
Total Expenditures	3,106,197	63,312	105,806	-
Other Financing Sources				
391.04 Compensation for Loss	46,578	-	-	-
391 Transfers Out (Note 6)	(24,792)	-	-	-
391.2 Long-Term Debt Issued (Note 5)	479,267	-	-	-
511 Transfers In (Note 6)	232,201	-	9,525	-
Total Other Financing Sources	733,254	-	9,525	-
Net Change in Fund Balances (Deficit)	65,253	(6,953)	(64,394)	1,121
Fund Balances (Deficit) - December 31, 2021	29,265	62,640	62,855	185,641
Fund Balances (Deficit) - December 31, 2022	\$ 94,518	\$ 55,687	\$ (1,539)	\$ 186,762

The accompanying notes are an integral part of the financial statements.

Special Assessment Debt Service Fund	TIF #2 Debt Service Fund	Total Governmental Funds
-	-	109,984
-	-	6,298
-	-	631
-	-	72,171
-	-	55,866
-	-	395,597
-	-	16,106
-	-	190,249
-	-	56,939
-	-	95,529
-	-	59,312
-	-	23,729
31,595	95,480	141,793
-	-	1,896,289
-	-	281,897
<u>31,595</u>	<u>95,480</u>	<u>3,402,390</u>
-	-	46,578
-	-	(24,792)
-	-	479,267
15,267	-	256,993
<u>15,267</u>	<u>-</u>	<u>758,046</u>
-	-	(4,973)
(42,756)	9,987	307,632
<u>\$ (42,756)</u>	<u>\$ 9,987</u>	<u>\$ 302,659</u>

CITY OF WHITEWOOD

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2022

Net change in fund balances - total governmental funds \$ (4,973)

Amounts reported for governmental activities in the Statement of Activities are different because:

Government funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense.

Capital Assets Purchases Capitalized	1,896,289
Depreciation Expense	(134,865)
	<hr/>
	1,761,424

The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund in that the fund financial statements require the amounts to be "available". (472)

Governmental funds report special assessments as revenue when available, but the Statement of Activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises. (12,182)

Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds. 23,026

Pension expense reported in the Statement of Activities does not require the use of current financial resources and are not reported as expenditures in the governmental funds. (12,798)

Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Statement of Net Position. (479,267)

Repayment of bond principal and tax increment financing are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 107,085

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. (840)

Change in Net Position of Governmental Activities \$ 1,381,003

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2022

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Assets			
Current Assets			
101 Cash and Investments (Note 2)	\$ 418,192	\$ 302,871	\$ 721,063
107 Restricted Cash and Investments (Notes 2 and 5)	48,336	12,684	61,020
115 Accounts Receivable	24,156	19,026	43,182
117 Unbilled Accounts Receivable	8,052	5,502	13,554
200 Net Pension Asset (Note 8)	192	127	319
Total Current Assets	498,928	340,210	839,138
Capital Assets (Note 7):			
160 Land	-	23,253	23,253
162 Buildings	664,728	845,641	1,510,369
163 Accumulated Depreciation - Buildings	(261,467)	(831,428)	(1,092,895)
164 Improvements Other Than Buildings	2,918,890	1,699,109	4,617,999
165 Accumulated Depreciation - Improvements Other than Buildings	(1,135,946)	(676,248)	(1,812,194)
166 Machinery and Equipment	110,054	225,939	335,993
167 Accumulated Depreciation - Machinery and Equipment	(97,296)	(120,702)	(217,998)
Total Noncurrent Assets	2,198,963	1,165,564	3,364,527
Deferred Outflows of Resources			
196 Pension Related Deferred Outflows (Notes 3 and 8)	17,463	11,602	29,065
Total Assets and Deferred Outflows of Resources	\$ 2,715,354	\$ 1,517,376	\$ 4,232,730

The accompanying notes are an integral part of the financial statements.

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Liabilities, Deferred Inflows of Resources and Net Position			
Current Liabilities			
202 Accounts Payable	\$ 2,873	\$ 3,137	\$ 6,010
205 Current Portion of Long-Term Debt (Note 5)	16,543	6,141	22,684
215 Accrued Interest Payable	2,252	-	2,252
216 Accrued Wages Payable	1,059	704	1,763
220 Customer Deposits	20,087	16,832	36,919
233 Accrued Leave Payable (Note 5)	1,359	1,073	2,432
Total Current Liabilities	44,173	27,887	72,060
Deferred Inflows of Resources			
248 Pension Related Deferred Inflows (Notes 3 and 8)	11,158	7,413	18,571
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 5)	717,387	212,229	929,616
Total Liabilities	772,718	247,529	1,020,247
Net Position			
253.1 Net Investment in Capital Assets	1,465,033	947,194	2,412,227
253.2 Restricted for Debt Service	48,336	12,684	61,020
264 Restricted for Pension (Note 8)	6,497	4,316	10,813
252 Unrestricted Net Position	422,770	305,653	728,423
Total Net Position	1,942,636	1,269,847	3,212,483
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 2,715,354	\$ 1,517,376	\$ 4,232,730

CITY OF WHITEWOOD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Operating Revenue			
380 Charges for Goods and Services	\$ 298,374	\$ 255,517	\$ 553,891
Total Operating Revenue	298,374	255,517	553,891
Operating Expenses			
410 Personal Services	73,673	55,208	128,881
420 Other Current Expense	117,061	170,951	288,012
457 Depreciation	81,006	59,552	140,558
Total Operating Expenses	271,740	285,711	557,451
Operating Income (Loss)	26,634	(30,194)	(3,560)
Non-Operating Income (Expense)			
361 Gain on Deposits and Investments	1,076	780	1,856
470 Interest Expense and Fiscal Charges	(32,500)	(6,724)	(39,224)
Total Non-Operating Income (Expense)	(31,424)	(5,944)	(37,368)
Income (Loss) before Transfers	(4,790)	(36,138)	(40,928)
Other Financing Uses			
391 Transfers Out (Note 6)	-	(232,201)	(232,201)
Total Transfers	-	(232,201)	(232,201)
Change in Net Position	(4,790)	(268,339)	(273,129)
Net Position - December 31, 2021	1,947,426	1,538,186	3,485,612
Net Position - December 31, 2022	\$ 1,942,636	\$ 1,269,847	\$ 3,212,483

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Water Fund	Sewer Fund	Total Proprietary Funds
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 294,933	\$ 256,949	\$ 551,882
Payments to Suppliers	(120,875)	(170,722)	(291,597)
Payments to Employees	(75,124)	(56,254)	(131,378)
Net Cash Flows Provided by Operating Activities	98,934	29,973	128,907
Cash Flows Used in Noncapital Financing Activities:			
Transfers Out	-	(232,201)	(232,201)
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(15,008)	(76,303)	(91,311)
Principal Paid on Capital Debt	(15,843)	(5,972)	(21,815)
Interest Paid	(32,500)	(6,724)	(39,224)
Net Cash Flows Used in Capital and Related Financing Activities	(63,351)	(88,999)	(152,350)
Cash Flows Provided by Investing Activities:			
Gain on Deposit and Investments	1,076	780	1,856
Increase (Decrease) in Cash and Investments	36,659	(290,447)	(253,788)
Cash and Investments - December 31, 2021	429,869	606,002	1,035,871
Cash and Investments - December 31, 2022	\$ 466,528	\$ 315,555	\$ 782,083
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities			
Operating Income (Loss)	\$ 26,634	\$ (30,194)	\$ (3,560)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:</i>			
Depreciation Expense	81,006	59,552	140,558
<i>Change in Assets and Liabilities:</i>			
Accounts Receivable and Unbilled Accounts Receivable	(3,715)	1,281	(2,434)
Pension Asset	14,605	9,642	24,247
Pension Related Deferred Outflows	(17,463)	(11,602)	(29,065)
Pension Related Deferred Inflows	1,661	1,143	2,804
Accounts Payable	(3,814)	229	(3,585)
Accrued Wages Payable	(62)	(4)	(66)
Customer Deposits	274	151	425
Accrued Leave Payable	(192)	(225)	(417)
Net Cash Flows Provided by Operating Activities	\$ 98,934	\$ 29,973	\$ 128,907

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

(1) Summary of Significant Accounting Policies

Reporting Entity

The reporting entity of the City of Whitewood (the City) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal 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.

The City participates in a cooperative unit with Northern Hills Multi-Jurisdictional Drug Task Force. See Note 9 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. 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.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues 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. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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, deferred inflows and outflows, fund equity, revenues and expenditures/expenses. Funds 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 it meets the following criteria:

1. Total assets, liabilities, deferred inflows and outflows, revenues, or expenditures/expenses 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, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 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.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued):

The funds of the City financial reporting entity 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 the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Library Fund – to account for the fines and similar charges deposited into the library board bank account (SDCL 14-2-42). This fund is a major fund.

Additional Sales Tax Fund – to account for an additional one percent gross receipts tax which may be used only for acquisition of land, capital improvement, and promotion of the City. This fund is a major fund.

Economic Development Fund – to account for the CDBG monies received in 1991. The money is used to create revolving loans for economic development purposes. This fund is a major fund.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Special Assessment Debt Service Fund – to account for assessment payments from property owners which are used only for the payment of the Special Assessment debt principal, interest, and related cost. This fund is a major fund.

TIF #2 Debt Service Fund – TIF funds are Tax Increment Financing Districts allowed by SDCL 11-9-24 to account for the proceeds of incremental property taxes, restricted for the payment of principal and interest on debt issued to finance a public improvement. This is a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity.
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Water Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Sewer Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

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 are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

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 on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified-accrual basis of accounting are applied to governmental fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary fund types.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Whitewood, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2022, are property, sales tax and special assessments.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Unavailable revenues, where asset recognition criteria have been met but for which revenue recognition criteria have not been met, are reported as a deferred inflow of resources.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. There are no significant inter-fund utility charges.

Interfund Eliminations

Government-wide Financial Statements

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in fund financial statements have been eliminated or reclassified, as follows: in order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities column of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns.

Capital Assets

Capital assets include land, buildings, machinery and equipment, 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 are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as "Improvements Other Than Buildings."

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Government-wide Financial Statements: (Continued)

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 10,000	Straight-line	15-75 years
Buildings	\$ -0-	Straight-line	50 years
Machinery and Equipment	\$ 2,500	Straight-line	5-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of sales tax, tax increment financing, water, and sewer revenue bonds; state revolving loan funds; special assessment debt; and compensated absences.

In the fund financial statements, debt proceeds of governmental funds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund financial statements and the government-wide financial statements.

Program Revenues

Program revenues are derived directly from the program itself or from parties other than the City’s taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – 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 – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2022

(1) Summary of Significant Accounting Policies (Continued)

Proprietary Funds Revenue and Expense Classifications

In the proprietary funds' Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

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 the cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions or enabling legislation.
3. Unrestricted net position – all other net positions that do not meet the definition of restricted or net investment in capital assets.

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Governmental Funds:

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 by the government through formal action of 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 action of the Mayor and the City Council.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2022

(1) Summary of Significant Accounting Policies (Continued)

Equity Classifications (Continued)

The City classifies governmental fund balances as follows (Continued):

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories.

The City uses restricted amounts first when both 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 does not have a formal minimum fund balance policy.

Proprietary Funds:

Proprietary fund equity is classified the same as in the government-wide financial statements.

Inventory

The City maintains no significant amounts of inventory at December 31, 2022.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. City contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

Subsequent Events

The City has assessed subsequent events through May 15, 2023, the date which the financial statements were available to be issued.

Emerging Accounting Standards

In June 2022, the Governmental Accounting Standards Board (GASB) issued Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences. Leave that has not been used, is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means should generally be recognized at the employee's pay rate as of the financial statement date. The standard also includes guidance for types of leave other than vacation, requires accrual of salary related payments, and changes the disclosure requirements. The statement is effective for the City's year ending December 31, 2024. The City is currently evaluating the impact this statement will have on the financial statements.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(1) Summary of Significant Accounting Policies (Concluded)

Adopted Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the terms of the lease. The statement requires a lessee to recognize a liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Adoption did not materially impact the City’s financial statements as all leases have terms of twelve months or less.

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized as the following:

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 depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC 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 duly authorized to do business in South Dakota.

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) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of December 31, 2022, the City’s cash consisted only of checking and savings with bank balances as follows:

	<u>Bank Balance</u>
Insured - FDIC	\$ 264,182
Uninsured, collateralized in accordance with SDCL 4-6A-3	386,372
Total Deposits	\$ 650,554

Investments of the City consist of the following at December 31, 2022:

	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value</u>
Money Market Fund	N/A	N/A	\$ 250,148
Total Investments			\$ 250,148

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(2) Deposits and Investments (Continued)

Credit 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 Credit Risk – Deposits:

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 credit risk. As of December 31, 2022, none of the City's deposits were exposed to custodial credit risk.

Custodial Credit Risk – Investments:

The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

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 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 per ordinance is to credit all income from investments to the fund making the investment and then transferring the cash to the General Fund for spending purposes, except for the Library Fund.

(3) Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that apply to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period. Deferred outflows of resources consist of pension activity.

In addition to liabilities, the Governmental Funds Balance Sheet reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as inflow of resources until the applicable future period. Deferred inflows of resources consist of property taxes, special assessments and pension activity.

(4) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. 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.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022

(5) Long-Term Debt

	Balance 12/31/2021	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2022	Due Within One Year
Primary Government:					
Governmental Activities:					
Sales Tax Revenue Bonds	\$ 72,203	\$ -	\$ 11,794	\$ 60,409	\$ 12,303
Special Assessment Bonds	202,269	-	24,010	178,259	24,912
Tax Increment Financing Obligations	434,117	-	71,281	362,836	18,607
Rural Development Interim Loan	-	479,267	-	479,267	-
Compensated Absences	11,733	9,624	8,784	12,573	12,573
Total Governmental Activities	720,322	488,891	115,869	1,093,344	68,395
Business-Type Activities:					
Water Revenue Bonds	749,773	-	15,843	733,930	16,543
Sewer Revenue Bonds	224,342	-	5,972	218,370	6,141
Compensated Absences	2,849	6,780	7,197	2,432	2,432
Total Business-Type Activities	976,964	6,780	29,012	954,732	25,116
Total Primary Government	\$ 1,697,286	\$ 495,671	\$ 144,881	\$ 2,048,076	\$ 93,511

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(5) Long-Term Debt (Continued)

Long-term debt at December 31, is comprised of the following:

Revenue Bonds

Rural Development Water Revenue Bonds, Series 2007; bears interest at 4.375 percent; due in monthly installments of \$4,028 through January 2048. Financed through the Water Fund. \$ 733,930

Rural Development Sewer Revenue Bonds, Series 2010; bears interest at 3.000 percent; due in monthly installments of \$1,057 through December 2047. Financed through the Sewer Fund. 218,370

Sales Tax Revenue Bond, Series 2004; bears interest at 4.375 percent; due in monthly installments of \$1,227 through June 2026. Financed through the General Fund. 60,409

Special Assessments

Special Assessment Bond, Series 2010; bears interest at 3.750 percent; due in annual installments of \$31,595 through December 2030. Financed through the Debt Service Fund. 178,259

Notes from Direct Borrowings:

Note payable to First Interstate Bank issued as interim financing for the Laurel Street project. The \$900,000 line of credit bears interest at a fixed rate of 2.300 percent and is due as a balloon payment in September 2024. This line of credit will be paid by Rural Development once the Laurel Street project reaches completion. Financed through the General Fund. 479,267

Tax Increment Financing Obligations

TIF #2 maximum borrowings of \$1,500,000, including interest of 5.750 per annum, due in varying installments within 30 days of property tax collections from the County. Financed through the TIF Debt Service Fund. 362,836

2,033,071

Compensated Absences

Governmental Funds 12,573

Water Fund 1,359

Sewer Fund 1,073

Total Compensated Absences **15,005**

Total Long-Term Debt **\$ 2,048,076**

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(5) Long-Term Debt (Continued)

The annual requirements to amortize long-term debt outstanding as of December 31, 2022, except for compensated absences, are as follows:

	Revenue Bonds		Special Assessments		TIF Obligations	
	Interest	Principal	Interest	Principal	Interest	Principal
2023	\$ 40,003	\$ 34,987	\$ 6,683	\$ 24,912	\$ 19,004	\$ 18,607
2024	50,252	36,448	5,765	25,830	19,400	18,211
2025	49,252	38,008	4,779	26,816	18,283	19,329
2026	48,256	39,612	3,775	27,820	17,155	20,456
2027	47,670	34,443	2,731	28,863	15,962	21,649
2028-2032	154,663	150,437	3,375	44,018	59,411	128,647
2033-2037	121,058	184,042	-	-	17,727	135,937
2038-2042	79,777	225,323	-	-	-	-
2043-2047	29,107	268,936	-	-	-	-
2048	136	473	-	-	-	-
Total	\$ 620,174	\$ 1,012,709	\$ 27,108	\$ 178,259	\$ 166,942	\$ 362,836

	Notes from Direct Borrowings		Total	
	Interest	Principal	Interest	Principal
2023	\$ -	\$ -	\$ 65,690	\$ 78,506
2024	11,023	479,267	86,440	559,756
2025	-	-	72,314	84,153
2026	-	-	69,186	87,888
2027	-	-	66,363	84,955
2028-2032	-	-	217,449	323,102
2033-2037	-	-	138,785	319,979
2038-2042	-	-	79,777	225,323
2043-2047	-	-	29,107	268,936
2048	-	-	136	473
Total	\$ 11,023	\$ 479,267	\$ 825,247	\$ 2,033,071

Tax Increment Financing Obligation

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established Tax Increment District which were constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such funds shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

During the year ended December 31, 2022, TIF related property tax revenues were \$95,480. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$24,199 for the year ended December 31, 2022.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(5) Long-Term Debt (Concluded)

Business-type Activities

The City has pledged future revenues of the Water Fund and Sewer Fund for the retirement of debt issuances associated with those funds through the maturity dates listed above. The City has pledged sales tax revenue of the General Fund for the retirement of debt issuances associated with the 2004 Sales Tax Revenue Bonds. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year.

Funds	Water Fund	Sewer Fund	General Fund
Current Year Principal and Interest	\$ 48,343	\$ 12,696	\$ 14,718
Pledged Revenue	298,374	255,517	378,033

Restricted Cash and Investments:

Debt covenants require \$106,930 of reserves. The City has restricted \$107,330 of cash and investments for debt service as of December 31, 2022.

(6) Interfund Activity

Interfund advances balances at December 31, 2022 are as follows:

Funds	Interfund Advance To	Interfund Advance From
General Fund	\$ (85,177)	\$ -
Special Assessment Debt Service Fund	-	77,509
Library Fund	-	7,668
Total Transfers	\$ (85,177)	\$ 85,177

The General Fund advanced monies to the Special Assessment Debt Service Fund and Library Fund for operations.

Interfund transfer balances at December 31, 2022 are as follows:

Funds	Transfers Out	Transfers In
General Fund	\$ (24,792)	\$ 232,201
Special Assessment Debt Service Fund	-	15,267
Sewer Fund	(232,201)	-
Additional Sales Tax Fund	-	9,525
Total Transfers	\$ (256,993)	\$ 256,993

Transfers between the funds were made to cover the general operational costs of the City.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(7) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31 is as follows:

<i>Governmental Activities:</i>	<u>Balance</u> <u>12/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2022</u>
Capital Assets, not being Depreciated:				
Land	\$ 220,200	\$ -	\$ -	\$ 220,200
Construction in Progress **	-	1,726,041	-	1,726,041
Total Capital Assets, not being Depreciated	220,200	1,726,041	-	1,946,241
Capital Assets, being Depreciated:				
Buildings	245,458	82,077	-	327,535
Improvements Other Than Buildings	2,166,580	-	-	2,166,580
Machinery and Equipment	854,807	88,171	-	942,978
Total Capital Assets, being Depreciated	3,266,845	170,248	-	3,437,093
Less Accumulated Depreciation for:				
Buildings	129,424	8,489	-	137,913
Improvements Other Than Buildings	521,472	61,667	-	583,139
Machinery and Equipment	653,623	64,709	-	718,332
Total Accumulated Depreciation	1,304,519	134,865	-	1,439,384
Total Governmental Activities Capital Assets, being Depreciated, Net	1,962,326	35,383	-	1,997,709
Total Governmental Capital Assets, Net	\$ 2,182,526	\$ 1,761,424	\$ -	\$ 3,943,950

** Construction Work in Progress at December 31, 2022 consists of engineering fees and construction costs for a street and utility improvements project. Total estimated expenditures for the project are estimated to be approximately \$2,525,000 and are being funded through a USDA Rural Development debt of \$628,000, a South Dakota Department of Transportation Community Access Grant of \$400,000, and a Community Development Block Grant of \$596,516. The City received additional interim financing from First Interstate Bank during the year ended December 31, 2022. Expenses in excess of the debt and grant will be paid for with the General Fund balance.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(7) Changes in Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Public Works	\$	83,860
Public Safety		30,876
General Government		12,560
Conservation and Development		4,308
Culture and Recreation		3,261
Total Depreciation Expense - Governmental	\$	134,865

	Balance 12/31/2021	Additions	Deletions	Balance 12/31/2022
<i>Business-type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 23,253	\$ -	\$ -	\$ 23,253
Total Capital Assets, not being Depreciated	23,253	-	-	23,253
Capital Assets, being Depreciated:				
Buildings	1,510,369	-	-	1,510,369
Improvements Other Than Buildings	4,617,999	-	-	4,617,999
Machinery and Equipment	244,682	91,311	-	335,993
Total Capital Assets, being Depreciated	6,373,050	91,311	-	6,464,361
Less Accumulated Depreciation for:				
Buildings	1,074,862	18,033	-	1,092,895
Improvements Other Than Buildings	1,714,330	97,864	-	1,812,194
Machinery and Equipment	193,337	24,661	-	217,998
Total Accumulated Depreciation	2,982,529	140,558	-	3,123,087
Total Business-type Activities Capital Assets, being Depreciated, Net	3,390,521	(49,247)	-	3,341,274
Total Business-type Capital Assets, Net	\$ 3,413,774	\$ (49,247)	\$ -	\$ 3,364,527

Depreciation expense was charged to functions as follows:

Water	\$	81,006
Sewer		59,552
Total Depreciation Expense - Business-type	\$	140,558

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(8) Pension Plan

All employees, working more than 20 hours per week during the year, participate in the SDRS, a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' 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://www.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 different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation 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. 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 Cost-of-Living Adjustment (COLA) process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to 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.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent. All benefits except those depending on the Member's Accumulated Contributions are annually increased by COLA.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(8) Pension Plan (Continued)

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 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2022, 2021, and 2020 were **\$28,320**, \$26,455, and \$23,619, respectively, equal to the required contributions each year.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2022, SDRS is 100.10 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of June 30, 2022 and reported by the City as of December 31, 2022, are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 2,216,558	\$ 477,283	\$ 2,693,841
Less: Proportionate Share of Total Pension Asset	(2,215,075)	(476,964)	(2,692,039)
Proportionate Share of Net Pension Asset	\$ 1,483	\$ 319	\$ 1,802

At December 31, 2022, the City reported an asset of \$1,802 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022 and the total pension asset used to calculate the net pension asset 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 0.0177860 percent, which is an increase of 0.0012840 percent from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the City recognized pension expense of \$16,080. At December 31, 2022, the City reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 34,307	\$ (117)
Changes in Assumption	114,545	(100,383)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(4,319)
City Contributions Subsequent to the Measurement Date	15,193	-
Total	\$ 164,045	\$ (104,819)

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(8) Pension Plan (Continued)

Deferred outflow of resources includes \$15,193 resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2023	\$	11,842
2024		25,029
2025		(28,544)
2026		35,706
	<u>\$</u>	<u>44,033</u>

Actuarial Assumptions:

The total pension 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 percent at entry to 3.15 percent after 25 years of service
Discount Rate	6.50 percent, net of pension plan investment expense
Future COLAs	2.10 percent
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 July 1, 2016 to June 30, 2021.

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 (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:

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(8) Pension Plan (Concluded)

<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	2.0%	0.4%
	100.0%	

Discount Rate:

The discount rate used to measure the total pension asset was 6.50 percent. 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 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 asset.

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

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

	<u>Current Discount</u>		
	<u>1% Decrease</u>	<u>Rate</u>	<u>1% Increase</u>
City’s Proportionate Share of the Net Pension (Asset)/Liability	\$ 374,217	\$ (1,802)	\$ (309,110)

Pension Plan Fiduciary Net Position:

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

(9) Joint Venture

The City participates in a joint venture, known as the Northern Hills Multi-Jurisdictional Drug Task Force, formed for the purpose of implementing and improving state and local drug law enforcement.

The members of the joint venture, each with 10 percent participation, are as follows:

Butte County	Newell City
Lawrence County	Deadwood City
Meade County	Belle Fourche City
Spearfish City	Lead City
Sturgis City	Whitewood City

The joint venture’s governing board is composed of 10 representatives, who are the sheriffs from each county and the police chief for each city. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The City retains no equity in the net position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Lawrence County Sheriff’s Office.

CITY OF WHITEWOOD

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(10) 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 year ended December 31, 2022, the City managed its risks as follows:

Employee Health Insurance:

The City carries health insurance coverage from a commercial provider. The coverage includes a \$2,000,000 lifetime maximum payment per person. The City pays a monthly premium to provide health insurance coverage for its employees.

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

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), 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 SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under an occurrence-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for police, fire, and vehicles.

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed. The prior policy provided the departing member with such a partial refund because the departing member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing member pursuant to the revised IGC.

The City carries a \$2,000 deductible for the police and fire coverage and \$100 to \$250 deductible for the vehicle coverage.

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

CITY OF WHITEWOOD

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2022**

(10) Risk Management (Continued)

Worker’s Compensation:

The City joined the South Dakota Municipal League Worker’s Compensation Fund (the 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 state 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 during the past three years.

Unemployment Benefits:

The City pays for unemployment benefits as incurred.

(11) Loan and Note Receivable

Loans and Notes receivable are revolving loans the City makes to promote urban development. The following is a summary of the loans and notes receivable at December 31, 2022:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
West River Foundation	Unsecured	0%	N/A	\$ 40,000
Whitewood Creek				
Chiropractic	All assets	3%	January 2031	31,637
				\$ 71,637

SINGLE AUDIT SECTION

CITY OF WHITEWOOD

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Identifying Number	Assistance Listing Number	Amount
<i>U.S. Department of Housing and Urban Development:</i>			
Pass-Through the Governor's Office of Economic Development			
Community Development Block Grants	1919-110	14.228	\$ 574,483
<i>U.S. Department of Transportation:</i>			
Pass-Through the S.D. Department of Public Safety			
Highway Safety 402 Fund	N/A	20.600	4,035
<i>U.S. Department of Treasury:</i>			
Pass-Through the S.D. Bureau of Finance and Management:			
COVID-19 - Coronavirus State and Local Fiscal Recovery Fund	N/A	21.027	177,048
<i>U.S. Department of Agriculture:</i>			
Pass-Through the S.D. Department of Agriculture			
Community Facilities Loans and Grants	N/A	10.766	458,645
Total			\$ 1,214,211

Note 1: Basis of Presentation and Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2: Indirect Cost Rate

The City did not elect to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

Note 3: Loan Programs

Expenditures reports in this schedule consist of the beginning of the year outstanding loan balance plus advances made on the loan during the year. The outstanding balance at December 31, 2022 was \$458,645.

OTHER REPORTS



Ketel Thorstenson, LLP

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

City Council
City of Whitewood
Whitewood, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the **City of Whitewood** (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 May 15, 2023.

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) as a basis for designing 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.

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

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as #2022-001 and #2022-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings as #2022-003 to be a significant deficiency.

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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Whitewood
City Council
Page Two

City's Response to Findings

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

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 City'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 City's internal control and compliance. 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.



KETEL THORSTENSON, LLP
Certified Public Accountants

May 15, 2023



Ketel Thorstenson, LLP

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

City Council
City of Whitewood
Whitewood, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the **CITY OF WHITEWOOD's** (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2022. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item #2022-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as #2022-004 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of Findings. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

City of Whitewood
City Council
Page Three

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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.



KETEL THORSTENSON, LLP
Certified Public Accountants

May 15, 2023

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

A. SUMMARY OF AUDIT RESULTS

1. The Independent Auditor's Report expresses an unmodified opinion on all of the financial statements of the City.
2. Material weaknesses and significant deficiencies disclosed during the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. Material weaknesses and significant deficiencies disclosed during the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the City expresses unmodified opinions on all major programs, as listed in #7.
6. Audit findings relative to the major federal award program for the City are reported in Part C of this schedule.
7. The program tested as a major program was the Community Development Block Grant (ALN #14.228).
8. The threshold for distinguishing types A and B programs was \$750,000.
9. The City was not determined to be a low risk auditee.

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
DECEMBER 31, 2022**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weaknesses

Finding No. 2022-001: Financial Statement and Schedule of Expenditures of Federal Awards Preparation

Federal Program Affected: Community Development Block Grant (ALN #14.228)

Compliance Requirement: Reporting

Questioned Costs: None

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management’s responsibility to provide for the preparation of the City’s statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do this with cities of your size.

Criteria and Effect: It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City’s management.

Repeat Finding from Prior Year: Yes, prior year Finding No. 2021-001.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, we have answered any questions they might have, and we have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: See City’s Corrective Action Plan.

Finding No. 2022-002: Audit Adjustments

Federal Program Affected: None

Compliance Requirement: Not applicable

Questioned Costs: None

Condition and Cause: During the course of our engagement, we proposed several audit adjustments. Adjustments included rolling forward fund balances, adjusting group health insurance, recording retainage payable, recording new financing arrangements and TIF activity, recording net pension asset and related activity, and various reclassification entries.

Criteria and Effect: These adjustments were not identified as a result of the City’s existing internal controls, and therefore could have resulted in a material misstatement of the City’s financial statements.

Repeat Finding from Prior Year: Yes, prior year Finding No. 2021-002.

Recommendation: We recommend the City’s operations be continually reviewed for potential changes in the accounting processes so that the appropriate journal entries can be made throughout the year. Audit adjustments should be posted to the respective year-end, and entries should not be posted directly to the fund balance or net position accounts. The balance sheet accounts should be adjusted to actual at year end.

Response/Corrective Action Plan: See City’s Corrective Action Plan.

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
DECEMBER 31, 2022**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiency

Finding No. 2022-003: Segregation of Duties

Federal Program Affected: None

Compliance Requirement: Not Applicable

Questioned Costs: None

Condition and Cause: The City Finance Office lacks adequate segregation of duties over the cash receipts and disbursements processes. This is not uncommon for a finance office with only one or two employees.

Criteria and Effect: Lack of adequate segregation of duties exists and could result in misappropriated cash receipts or disbursements.

Repeat Finding from Prior Year: Yes, prior year Finding No. 2021-003.

Recommendation: We recommend a member of the City Council continue to review the bank statements, including cancelled check copies, and adjustments to customer accounts, in detail, to mitigate the risk of misappropriated cash receipts and disbursements. The Mayor and Finance Committee should meet quarterly to review budget to actual expense reports for any unusual activity.

Response/Corrective Action Plan: See City's Corrective Action Plan.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM AUDIT

Findings #2022-001 listed in Part B related to the major program as noted in each individual finding.

Significant Deficiency

Finding No. 2022-004: Written Uniform Guidance Policies

Federal Program Affected: Community Development Block Grant (ALN #14.228)

Compliance Requirement: Allowable Costs/Cost Principles

Questioned Costs: None

Condition and Cause: The City does not have written policies for allowable costs/cost principles.

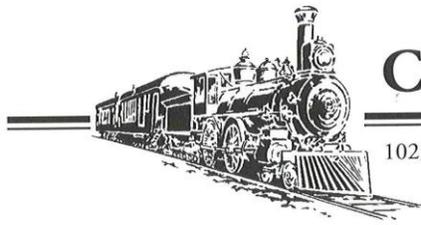
Criteria and Effect: Uniform Guidance specifically requires entities to maintain written policies for allowable costs/cost principles. Not properly maintaining such policies leads to noncompliance and potential unallowable costs.

Repeat Finding from Prior Year: No.

Recommendation: The City should create written policies for allowable costs/cost principles.

Response/Corrective Action Plan: The City is in agreement with the finding. See City's Corrective Action Plan.

MANAGEMENT RESPONSE



City of Whitewood

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CITY OF WHITEWOOD

SCHEDULE OF PRIOR FINDINGS DECEMBER 31, 2022

The City of Whitewood respectfully submits the following summary schedule of prior audit findings from the December 31, 2021 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2021 Schedule of Findings.

Finding No. 2021-001: Financial Statement Preparation

Status: It is more cost effective for the City to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as part of the annual audit process. The City has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2022, see Corrective Action Plan.

Finding No. 2021-002: Audit Adjustments

The City made efforts to record all year-end entries, but several audit adjustments were made.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The finding is altered based on specific audit adjustments each year, and is repeated in the Schedule of Findings. See Corrective Action Plan.

Finding No. 2021-003: Segregation of Duties

The City has implemented the recommendations as mitigating controls, but continues to have a lack of adequate segregation of duties as a result of the size of the Finance Office and has accepted the risk involved.

Initial Year Report: Originally issued years ago.

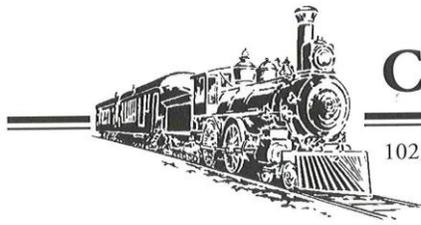
Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the segregation of duties finding, it will be repeated in 2022. See Corrective Action Plan.

Finding No. 2021-004: Certificates of Deposit

The City was invested in participating and negotiable certificates of deposit which is in violation of South Dakota Codified Law 4-5-6.

Initial Year Report: Originally issued in 2016, revised in 2019.

Reasons for Recurrence and Corrective Action Plan: All negotiable certificates of deposit matured or transferred to state law compliant investments.



City of Whitewood

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CITY OF WHITEWOOD

CORRECTIVE ACTION PLAN DECEMBER 31, 2022

The City respectfully submits the following corrective action plan from the December 31, 2022 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

Finding No. 2022-001: Financial Statement and Schedule of Expenditures of Federal Awards Preparation

The City has accepted the risk associated with Finding #2022-001 regarding the preparation of the financial statements and will continue to have the independent auditor prepare the annual financial statements. For future audits, Finance Officer Cory Heckenlaible will continue to monitor the financial statement preparation and determine if any modification is necessary.

Finding No. 2022-002: Audit Adjustments

The City Finance Officer, Cory Heckenlaible, will be diligent in the year end closing process to properly adjust balance sheet accounts in 2023.

Finding No. 2022-003: Segregation of Duties

The City personnel and City Council will continue establishing internal controls where feasible in 2023. Cory Heckenlaible, Finance Officer, is responsible for this finding.

Finding No. 2022-004: Written Uniform Guidance Policies

The City is working on developing written Uniform Guidance policies. Cory Heckenlaible, Finance Officer, is responsible for this finding.