



Financial Statements  
December 31, 2019 and 2018  
**City of Bowdle**

Finance Officer ..... Janet Sandmeier

Mayor ..... Rick Boschee

Governing Board ..... Erick Bieber  
Rex Gab  
Mike Gunderson  
Tim Thomas  
Amy Kappenman  
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## Independent Auditor's Report

The City Council  
City of Bowdle  
Bowdle, South Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund (except as described below) of the City of Bowdle (the City) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Qualified
General Fund	Unmodified
Bowdle Economic Development Corporation	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Bowdle Healthcare Center Fund	Adverse
Discretely Presented Component Unit	Adverse

### **Basis for Adverse Opinion on the Bowdle Healthcare Center Fund and Qualified Opinion on Business-Type Activities**

Management has not included the Bowdle Healthcare Center Fund in the City's financial statements. Accounting principles generally accepted in the United States of America require the Bowdle Healthcare Center Fund to be presented as a major enterprise fund and financial information about the Bowdle Healthcare Center Fund to be part of the business-type activities, thus increasing that activity's assets, revenues, expenses, and changing its net position under the modified cash basis of accounting. The amount by which this departure would affect the assets, net position, revenues, and expenses of the business-type activities and the omitted major fund has not been determined.

### **Basis for Adverse Opinion on the Discretely Presented Component Unit**

Management has not included the financial data for a legally separate component unit in the City's financial statements. Accounting principles applicable to the modified cash basis of accounting require the financial data for the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, net position, revenues, and expenditures of the discretely presented component unit has not been determined.

### **Adverse Opinion on the Bowdle Healthcare Center Fund**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Bowdle Healthcare Center Fund and Qualified Opinion on Business-Type Activities" paragraph, the modified cash basis financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the Bowdle Healthcare Center Fund of the City of Bowdle as of December 31, 2019 and 2018, or the changes in financial position or cash flows thereof for the years then ended in accordance with the modified cash basis of accounting.

### **Qualified Opinion on the Business-Type Activities**

In our opinion, except for the matter described in the "Basis for Adverse Opinion on the Bowdle Healthcare Center Fund and Qualified Opinion on Business-Type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Bowdle as of December 31, 2019 and 2018, and the changes in financial position thereof for the years then ended in accordance with the modified cash basis of accounting.

### **Adverse Opinion on the Discretely Presented Component Unit**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on the Discretely Presented Component Unit” paragraph, the modified cash basis financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the discretely presented component unit of the City of Bowdle as of December 31, 2019 and 2018, or the changes in financial position thereof for the years then ended in accordance with the modified cash basis of accounting.

### **Unmodified Opinions**

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the General Fund, the Bowdle Economic Development Corporation Fund, the Water Fund, and the Sewer Fund of the City of Bowdle as of December 31, 2019 and 2018, and the respective changes in financial position – modified cash basis and, where applicable, cash flows – modified cash basis thereof for the years then ended in conformity with the basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s financial statements. The listing of municipal officials, schedules of employer’s share of net pension liability (asset) and pension contributions, budgetary comparison schedules, and schedule of changes in long-term debt are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of employer’s share of net pension liability (asset) and pension contributions, budgetary comparison schedules, and schedule of changes in long-term debt are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matters described in the Basis for Adverse Opinion on the Bowdle Healthcare Center Fund and Qualified Opinion on Business-Type Activities paragraph and Basis for Adverse Opinion on the Discretely Presented Component Unit paragraph, it is inappropriate to, and we do not, express an opinion on such supplementary information.

The listing of municipal officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2021, on our consideration of the City of Bowdle’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 City of Bowdle’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 City of Bowdle’s internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota  
October 12, 2021

City of Bowdle  
Statement of Net Position—Modified Cash Basis  
December 31, 2019

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 345,421	\$ 230,991	\$ 576,412
Internal balances	55,713	(55,713)	-
	<u>\$ 401,134</u>	<u>\$ 175,278</u>	<u>\$ 576,412</u>
<b>Net Position</b>			
Restricted for:			
Debt service	\$ -	\$ 36,340	\$ 36,340
Short lived asset replacement	-	3,500	3,500
Customer deposits	-	6,836	6,836
Unrestricted	<u>401,134</u>	<u>128,602</u>	<u>529,736</u>
	<u>\$ 401,134</u>	<u>\$ 175,278</u>	<u>\$ 576,412</u>



City of Bowdle  
Statement of Net Position—Modified Cash Basis  
December 31, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 338,370	\$ 288,818	\$ 627,188
	<u>\$ 338,370</u>	<u>\$ 288,818</u>	<u>\$ 627,188</u>
<b>Net Position</b>			
Restricted for:			
Debt service	\$ -	\$ 29,732	\$ 29,732
Short lived asset replacement	-	3,500	3,500
Customer deposits	-	6,836	6,836
Unrestricted	<u>338,370</u>	<u>248,750</u>	<u>587,120</u>
	<u>\$ 338,370</u>	<u>\$ 288,818</u>	<u>\$ 627,188</u>

City of Bowdle  
Statement of Activities—Modified Cash Basis  
Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 95,725	\$ 27,664	\$ 940	\$ -	\$ (67,121)	\$ -	\$ (67,121)
Public safety	31,888	-	-	-	(31,888)	-	(31,888)
Public works	147,756	8,155	37,981	-	(101,620)	-	(101,620)
Health and welfare	444	-	-	-	(444)	-	(444)
Culture and recreation	49,375	400	-	-	(48,975)	-	(48,975)
Conservation and development	11,123	-	-	-	(11,123)	-	(11,123)
Total governmental activities	<u>336,311</u>	<u>36,219</u>	<u>38,921</u>	<u>-</u>	<u>(261,171)</u>	<u>-</u>	<u>(261,171)</u>
Business-type activities:							
Water	195,561	114,322	-	-	-	(81,239)	(81,239)
Sewer	125,012	90,002	-	-	-	(35,010)	(35,010)
Total business-type activities	<u>320,573</u>	<u>204,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(116,249)</u>	<u>(116,249)</u>
	<u>\$ 656,884</u>	<u>\$ 240,543</u>	<u>\$ 38,921</u>	<u>\$ -</u>	<u>(261,171)</u>	<u>(116,249)</u>	<u>(377,420)</u>
<b>General Revenues</b>							
Taxes:							
Property taxes					103,151	-	103,151
Sales and use taxes					148,752	-	148,752
State shared revenues					4,156	-	4,156
Unrestricted investment earnings					5,398	533	5,931
Debt issued					-	2,176	2,176
Miscellaneous revenue					16,719	-	16,719
Sale of municipal property					45,759	-	45,759
Total general revenues and transfers					<u>323,935</u>	<u>2,709</u>	<u>326,644</u>
Change in Net Position					62,764	(113,540)	(50,776)
Net Position - Beginning					<u>338,370</u>	<u>288,818</u>	<u>627,188</u>
Net Position - Ending					<u>\$ 401,134</u>	<u>\$ 175,278</u>	<u>\$ 576,412</u>

See Notes to Financial Statements

City of Bowdle  
Statement of Activities—Modified Cash Basis  
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 97,295	\$ 24,715	\$ 1,065	\$ -	\$ (71,515)	\$ -	\$ (71,515)
Public safety	28,705	-	-	-	(28,705)	-	(28,705)
Public works	217,454	8,551	38,216	-	(170,687)	-	(170,687)
Health and welfare	1,937	-	-	-	(1,937)	-	(1,937)
Culture and recreation	48,411	-	-	-	(48,411)	-	(48,411)
Conservation and development	4,806	-	-	-	(4,806)	-	(4,806)
Total governmental activities	<u>398,608</u>	<u>33,266</u>	<u>39,281</u>	<u>-</u>	<u>(326,061)</u>	<u>-</u>	<u>(326,061)</u>
Business-type activities:							
Water	307,682	123,717	-	87,040	-	(96,925)	(96,925)
Sewer	203,873	89,624	-	87,040	-	(27,209)	(27,209)
Total business-type activities	<u>511,555</u>	<u>213,341</u>	<u>-</u>	<u>174,080</u>	<u>-</u>	<u>(124,134)</u>	<u>(124,134)</u>
	<u>\$ 910,163</u>	<u>\$ 246,607</u>	<u>\$ 39,281</u>	<u>\$ 174,080</u>	<u>(326,061)</u>	<u>(124,134)</u>	<u>(450,195)</u>
General Revenues							
Taxes:							
Property taxes					104,114	-	104,114
Sales and use taxes					208,831	-	208,831
State shared revenues					4,146	-	4,146
Unrestricted investment earnings					3,261	298	3,559
Miscellaneous revenue					18,246	-	18,246
Debt issued					-	133,112	133,112
Sale of municipal property					4,889	-	4,889
Total general revenues and transfers					<u>343,487</u>	<u>133,410</u>	<u>476,897</u>
Change in Net Position					17,426	9,276	26,702
Net Position - Beginning					<u>320,944</u>	<u>279,542</u>	<u>600,486</u>
Net Position - Ending					<u>\$ 338,370</u>	<u>\$ 288,818</u>	<u>\$ 627,188</u>

See Notes to Financial Statements

City of Bowdle  
Balance Sheet—Modified Cash Basis—Governmental Funds  
December 31, 2019

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	General Fund	Bowdle Economic Development Corp	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 339,684	\$ 5,737	\$ 345,421
Due from water fund	55,713	-	55,713
	\$ 395,397	\$ 5,737	\$ 401,134
<b>Fund Balances</b>			
266 Assigned	\$ -	\$ 5,737	\$ 5,737
267 Unassigned	395,397	-	395,397
	\$ 395,397	\$ 5,737	\$ 401,134

City of Bowdle  
Balance Sheet—Modified Cash Basis—Governmental Funds  
December 31, 2018

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	General Fund	Bowdle Economic Development Corp	Total
Assets			
Cash and cash equivalents	\$ 334,513	\$ 3,857	\$ 338,370
	<u>\$ 334,513</u>	<u>\$ 3,857</u>	<u>\$ 338,370</u>
Fund Balance			
266 Assigned	\$ -	\$ 3,857	\$ 3,857
267 Unassigned	334,513	-	334,513
	<u>\$ 334,513</u>	<u>\$ 3,857</u>	<u>\$ 338,370</u>

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds  
Year Ended December 31, 2019

	General Fund	Bowdle Economic Development Corp	Total
Revenues			
310 Taxes			
311 General property taxes	\$ 102,821	\$ -	\$ 102,821
313 General sales and use taxes	148,752	-	148,752
319 Penalties and interest on delinquent taxes	330	-	330
Total taxes	<u>251,903</u>	<u>-</u>	<u>251,903</u>
320 Licenses and permits	<u>2,441</u>	<u>-</u>	<u>2,441</u>
330 Intergovernmental revenue			
334 State grants	940	-	940
335 State shared revenue:			
335.01 Bank franchise tax	884	-	884
335.02 Motor vehicle commercial prorate	2,712	-	2,712
335.03 Liquor tax reversion	3,272	-	3,272
335.04 Motor vehicle licenses (5%)	11,990	-	11,990
335.08 Local government highway and bridge fund	20,888	-	20,888
338 County shared revenue			
338.01 County road tax (25%)	768	-	768
338.03 County wheel tax	1,623	-	1,623
Total intergovernmental revenue	<u>43,077</u>	<u>-</u>	<u>43,077</u>
340 Charges for goods and services			
344 Sanitation	<u>8,155</u>	<u>-</u>	<u>8,155</u>
Total charges for goods and services	<u>8,155</u>	<u>-</u>	<u>8,155</u>
350 Fines and forfeits			
354 Library	<u>400</u>	<u>-</u>	<u>400</u>
Total fines and forfeits	<u>400</u>	<u>-</u>	<u>400</u>
360 Miscellaneous revenue			
361 Investment earnings	5,398	-	5,398
362 Rentals	25,223	-	25,223
369 Other	8,707	1,880	10,587
Total miscellaneous revenue	<u>39,328</u>	<u>1,880</u>	<u>41,208</u>
Total revenues	<u>345,304</u>	<u>1,880</u>	<u>347,184</u>

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds  
Year Ended December 31, 2019

	<u>General Fund</u>	<u>Bowdle Economic Development Corp</u>	<u>Total</u>
<b>Expenditures</b>			
410 General government			
412 Executive	41,183	-	41,183
413 Elections	25	-	25
414 Financial administration	49,526	-	49,526
419 Other	4,991	-	4,991
Total general government	<u>95,725</u>	<u>-</u>	<u>95,725</u>
420 Public safety			
422 Fire	31,888	-	31,888
Total public safety	<u>31,888</u>	<u>-</u>	<u>31,888</u>
430 Public works			
431 Highways and streets	139,075	-	139,075
432 Sanitation	6,191	-	6,191
435 Airport	1,757	-	1,757
437 Cemeteries	133	-	133
439 Transit	600	-	600
Total public works	<u>147,756</u>	<u>-</u>	<u>147,756</u>
440 Health and welfare			
441 Health	444	-	444
Total health and welfare	<u>444</u>	<u>-</u>	<u>444</u>
450 Culture and recreation			
452 Parks	11,189	-	11,189
455 Libraries	38,186	-	38,186
Total culture and recreation	<u>49,375</u>	<u>-</u>	<u>49,375</u>
460 Conservation and development			
465 Economic development and assistance (industrial development)	11,123	-	11,123
Total conservation and development	<u>11,123</u>	<u>-</u>	<u>11,123</u>
Total expenditures	<u>336,311</u>	<u>-</u>	<u>336,311</u>

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds  
Year Ended December 31, 2019

	<u>General Fund</u>	<u>Bowdle Economic Development Corp</u>	<u>Total</u>
Other Financing Sources (Uses)			
391.03 Sale of municipal property	45,759	-	45,759
391.04 Compensation for loss or damage to capital assets	6,132	-	6,132
Total other financing sources (uses)	<u>51,891</u>	<u>-</u>	<u>51,891</u>
Net Change in Fund Balance	60,884	1,880	62,764
Fund Balance - Beginning	<u>334,513</u>	<u>3,857</u>	<u>338,370</u>
Fund Balance - Ending	<u>\$ 395,397</u>	<u>\$ 5,737</u>	<u>\$ 401,134</u>



Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds  
Year Ended December 31, 2018

	General Fund	Bowdle Economic Development Corp	Total
Revenues			
310 Taxes			
311 General property taxes	\$ 103,804	\$ -	\$ 103,804
313 General sales and use taxes	208,831	-	208,831
319 Penalties and interest on delinquent taxes	310	-	310
Total taxes	<u>312,945</u>	<u>-</u>	<u>312,945</u>
320 Licenses and permits	<u>2,270</u>	<u>-</u>	<u>2,270</u>
330 Intergovernmental revenue			
334 State grants	1,065	-	1,065
335 State shared revenue:			
335.01 Bank franchise tax	989	-	989
335.02 Motor vehicle commercial prorate	2,715	-	2,715
335.03 Liquor tax reversion	3,157	-	3,157
335.04 Motor vehicle licenses (5%)	12,784	-	12,784
335.08 Local government highway and bridge fund	20,330	-	20,330
338 County shared revenue			
338.01 County road tax (25%)	768	-	768
338.03 County wheel tax	1,619	-	1,619
Total intergovernmental revenue	<u>43,427</u>	<u>-</u>	<u>43,427</u>
340 Charges for goods and services			
344 Sanitation	<u>8,551</u>	<u>-</u>	<u>8,551</u>
Total charges for goods and services	<u>8,551</u>	<u>-</u>	<u>8,551</u>
360 Miscellaneous revenue			
361 Investment earnings	3,261	-	3,261
362 Rentals	22,445	-	22,445
369 Other	14,389	3,857	18,246
Total miscellaneous revenue	<u>40,095</u>	<u>3,857</u>	<u>43,952</u>
Total revenues	<u>407,288</u>	<u>3,857</u>	<u>411,145</u>

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds  
Year Ended December 31, 2018

	General Fund	Bowdle Economic Development Corp	Total
Expenditures			
410 General government			
412 Executive	41,391	-	41,391
414 Financial administration	45,609	-	45,609
419 Other	10,295	-	10,295
Total general government	97,295	-	97,295
420 Public safety			
422 Fire	28,705	-	28,705
Total public safety	28,705	-	28,705
430 Public works			
431 Highways and streets	204,379	-	204,379
432 Sanitation	10,091	-	10,091
435 Airport	2,274	-	2,274
437 Cemeteries	110	-	110
439 Transit	600	-	600
Total public works	217,454	-	217,454
440 Health and welfare			
441 Health	1,937	-	1,937
Total health and welfare	1,937	-	1,937
450 Culture and recreation			
452 Parks	11,988	-	11,988
455 Libraries	36,423	-	36,423
Total culture and recreation	48,411	-	48,411
460 Conservation and development			
465 Economic development and assistance (industrial development)	4,806	-	4,806
Total conservation and development	4,806	-	4,806
Total expenditures	398,608	-	398,608

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis Governmental Funds  
 Year Ended December 31, 2018

	<u>General Fund</u>	<u>Bowdle Economic Development Corp</u>	<u>Total</u>
Other Financing Sources (Uses)			
391.03 Sale of municipal property	4,889	-	4,889
Total other financing sources (uses)	<u>4,889</u>	<u>-</u>	<u>4,889</u>
Net Change in Fund Balance	13,569	3,857	17,426
Fund Balance - Beginning	<u>320,944</u>	<u>-</u>	<u>320,944</u>
Fund Balance - Ending	<u>\$ 334,513</u>	<u>\$ 3,857</u>	<u>\$ 338,370</u>

City of Bowdle  
Statement of Net Position—Modified Cash Basis—Proprietary Funds  
December 31, 2019

	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ -	\$ 230,991	\$ 230,991
	<u>\$ -</u>	<u>\$ 230,991</u>	<u>\$ 230,991</u>
Liabilities and Net Position			
Current Liabilities			
Due to general fund	\$ 55,713	\$ -	\$ 55,713
Net Position			
253.21 Restricted for debt service	18,170	18,170	36,340
253.26 Restricted for short lived asset replacement	1,750	1,750	3,500
253.29 Restricted for customer deposits	3,418	3,418	6,836
253.90 Unrestricted net position (deficit)	(79,051)	207,653	128,602
Total Net Position (Deficit)	<u>(55,713)</u>	<u>230,991</u>	<u>175,278</u>
Total Liabilities and Net Position	<u>\$ -</u>	<u>\$ 230,991</u>	<u>\$ 230,991</u>

City of Bowdle  
Statement of Net Position—Modified Cash Basis—Proprietary Funds  
December 31, 2018

	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 24,438	\$ 264,380	\$ 288,818
	<u>\$ 24,438</u>	<u>\$ 264,380</u>	<u>\$ 288,818</u>
Net Position			
Net Position			
253.21 Restricted for debt service	\$ 14,866	\$ 14,866	\$ 29,732
253.26 Restricted for short lived asset replacement	1,750	1,750	3,500
253.29 Restricted for customer deposits	3,418	3,418	6,836
253.90 Unrestricted net position (deficit)	4,404	244,346	248,750
	<u>\$ 24,438</u>	<u>\$ 264,380</u>	<u>\$ 288,818</u>
Total Net Position	<u>\$ 24,438</u>	<u>\$ 264,380</u>	<u>\$ 288,818</u>

City of Bowdle

Statement of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2019

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	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 111,531	\$ 88,891	\$ 200,422
369 Miscellaneous	2,791	1,111	3,902
Total operating revenue	<u>114,322</u>	<u>90,002</u>	<u>204,324</u>
Operating Expenses			
410 Personal services	23,508	24,911	48,419
420 Other current expense	69,030	79,941	148,971
426.2 Materials	83,649	786	84,435
Total operating expenses	<u>176,187</u>	<u>105,638</u>	<u>281,825</u>
Operating Income (Loss)	<u>(61,865)</u>	<u>(15,636)</u>	<u>(77,501)</u>
Nonoperating Revenue (Expense)			
361 Investment earnings	-	533	533
391.20 Long-term debt issued	1,088	1,088	2,176
441 Debt service (principal)	(7,311)	(7,311)	(14,622)
442 Debt service (interest)	(12,063)	(12,063)	(24,126)
Total nonoperating revenue (expense)	<u>(18,286)</u>	<u>(17,753)</u>	<u>(36,039)</u>
Change in Net Position	(80,151)	(33,389)	(113,540)
Net Position - Beginning	<u>24,438</u>	<u>264,380</u>	<u>288,818</u>
Net Position (Deficit) - Ending	<u>\$ (55,713)</u>	<u>\$ 230,991</u>	<u>\$ 175,278</u>

Statement of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2018

	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 117,779	\$ 87,448	\$ 205,227
369 Miscellaneous	5,938	2,176	8,114
Total operating revenue	<u>123,717</u>	<u>89,624</u>	<u>213,341</u>
Operating Expenses			
410 Personal services	24,931	25,668	50,599
420 Other current expense	198,015	161,211	359,226
426.2 Materials	67,742	-	67,742
Total operating expenses	<u>290,688</u>	<u>186,879</u>	<u>477,567</u>
Operating Income (Loss)	<u>(166,971)</u>	<u>(97,255)</u>	<u>(264,226)</u>
Nonoperating Revenue (Expense)			
330 Grants	87,040	87,040	174,080
361 Investment earnings	-	298	298
391.20 Long-term debt issued	66,556	66,556	133,112
441 Debt service (principal)	(6,354)	(6,354)	(12,708)
442 Debt service (interest)	(10,640)	(10,640)	(21,280)
Total nonoperating revenue (expense)	<u>136,602</u>	<u>136,900</u>	<u>273,502</u>
Change in Net Position	(30,369)	39,645	9,276
Net Position - Beginning	<u>54,807</u>	<u>224,735</u>	<u>279,542</u>
Net Position - Ending	<u>\$ 24,438</u>	<u>\$ 264,380</u>	<u>\$ 288,818</u>

City of Bowdle  
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2019

	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipt from customers	\$ 114,322	\$ 90,002	\$ 204,324
Payments to suppliers	(152,679)	(80,727)	(233,406)
Payments to employees	(23,508)	(24,911)	(48,419)
Internal activity - payments from other funds	55,713	-	55,713
Net Cash used for Operating Activities	<u>(6,152)</u>	<u>(15,636)</u>	<u>(21,788)</u>
Cash Flows from (used for) Capital and Related Financing Activities			
Proceeds from capital debt	1,088	1,088	2,176
Principal paid on capital debt	(7,311)	(7,311)	(14,622)
Interest paid on capital debt	(12,063)	(12,063)	(24,126)
Net Cash used for Capital and Related Financing Activities	<u>(18,286)</u>	<u>(18,286)</u>	<u>(36,572)</u>
Cash Flows from Investing Activities			
Interest earnings	-	533	533
Net Cash from Investing Activities	<u>-</u>	<u>533</u>	<u>533</u>
Net Change in Cash and Cash Equivalents	(24,438)	(33,389)	(57,827)
Cash and Cash Equivalents - Beginning	24,438	264,380	288,818
Cash and Cash Equivalents - Ending	<u>\$ -</u>	<u>\$ 230,991</u>	<u>\$ 230,991</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	<u>\$ -</u>	<u>\$ 230,991</u>	<u>\$ 230,991</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities			
Operating loss	\$ (61,865)	\$ (15,636)	\$ (77,501)
Adjustments to reconcile operating loss to net cash used for operating activities:			
Due to other funds	55,713	-	55,713
Net Cash used for Operating Activities	<u>\$ (6,152)</u>	<u>\$ (15,636)</u>	<u>\$ (21,788)</u>



City of Bowdle  
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2018

	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipt from customers	\$ 123,717	\$ 89,624	\$ 213,341
Payments to suppliers	(265,757)	(161,211)	(426,968)
Payments to employees	(24,931)	(25,668)	(50,599)
Net Cash used for Operating Activities	<u>(166,971)</u>	<u>(97,255)</u>	<u>(264,226)</u>
Cash Flows from (used for) Capital and Related Financing Activities			
Proceeds from capital debt	66,556	66,556	133,112
Capital grants received	87,040	87,040	174,080
Principal paid on capital debt	(6,354)	(6,354)	(12,708)
Interest paid on capital debt	(10,640)	(10,640)	(21,280)
Net Cash from Capital and Related Financing Activities	<u>136,602</u>	<u>136,602</u>	<u>273,204</u>
Cash Flows from Investing Activities			
Interest earnings	-	298	298
Net Cash from Investing Activities	<u>-</u>	<u>298</u>	<u>298</u>
Net Change in Cash and Cash Equivalents	(30,369)	39,645	9,276
Cash and Cash Equivalents - Beginning	<u>54,807</u>	<u>224,735</u>	<u>279,542</u>
Cash and Cash Equivalents - Ending	<u>\$ 24,438</u>	<u>\$ 264,380</u>	<u>\$ 288,818</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	<u>\$ 24,438</u>	<u>\$ 264,380</u>	<u>\$ 288,818</u>
Reconciliation of Operating Loss to			
Net Cash used for Operating Activities			
Operating income (loss)	<u>\$ (166,971)</u>	<u>\$ (97,255)</u>	<u>\$ (264,226)</u>
Net Cash used for Operating Activities	<u>\$ (166,971)</u>	<u>\$ (97,255)</u>	<u>\$ (264,226)</u>

## **Note 1 - Summary of Significant Accounting Policies**

As discussed further in Note 1, the financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

### **Financial Reporting Entity**

The reporting entity of the City of Bowdle (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 except for the Bowdle Healthcare Center Fund as described in the Independent Auditor's Report Basis for Adverse Opinion on the Bowdle Healthcare Center Fund and Qualified Opinion on Business-Type Activities paragraph, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, City of Bowdle, and two component units, the Bowdle Economic Development Corporation and the City of Bowdle Housing and Redevelopment Commission.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The Bowdle Economic Development Corporation (Development Corporation) is a governmental fund-type, blended component unit. The Development Corporation's board and all vacancies to the board are appointed by the Mayor with the approval of the City Council. The Director of the Development Corporation is the City Finance Officer for which a portion of the Finance Officer's salary is for this responsibility. The Mayor and City Council, through its ability to fill and approve vacancies of the Development Corporation's Board and Director being the City Finance Officer, gives the City the ability to impose its will on the Development Corporation. The Development Corporation exclusively, or almost exclusively, benefits the primary government and, therefore, meets the criteria as a blended component unit.

The City has elected not to present the financial information of the City of Bowdle Housing and Redevelopment Commission and, therefore, it has not been included in the financial statements of the City.

The City has elected not to present the primary government's activities of the Bowdle Healthcare Center Fund; thus, the financial information of the Bowdle Healthcare Center Fund has not been included in the financial statements of the City.

## **Basis of Presentation**

### **Government-Wide Financial Statements**

The statements of net position and statements of activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. 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 statements of activities present 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 City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, 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, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% 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% of the corresponding total for all governmental and enterprise funds combined; or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year-to-year or because of public interest in the fund's operations.

The funds of the City of Bowdle 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.

**Bowdle Economic Development Corporation Fund** – To account for the ongoing operations of the Bowdle Economic Development Corporation which strives to promote the local economy by developing programs to increase retail businesses and services in the community. This is a major fund.

## **Proprietary Funds**

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City reports the following major enterprise funds:

- Water Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1).
- Sewer Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2).

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## **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**

In the government-wide statements of net position and statements of activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting, as defined below.

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

### **Basis of Accounting**

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involved modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such report balances may include investments in certificates of deposit (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash accounts at cost and inter-fund advances and borrowing arising from the use of a pooled cash account.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows of resources that do not arise from a cash transaction or event that would be reported in GAAP basis financial statements (such as donated assets) are not reported in this modified cash basis presentation, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

### **Deposits and Investments**

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares or similar investments in external investment pools are also considered to be cash equivalents.

As of December 31, 2019 and 2018, the City did not hold any investments as defined by the Governmental Accounting Standards Board.

### **Interfund Eliminations and Reclassifications**

#### **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 the fund financial statements have been eliminated or reclassified, as follows:

- The City presents the net residual amounts due between governmental and business-type activities, which are presented as amounts due to or due from other funds.
- The City did not have internal service fund activity which required elimination as of December 31, 2019 and 2018.

### **Capital Assets**

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

### **Long-Term Liabilities**

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. Under the modified cash basis, the accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

### **Program Revenues**

In the government-wide statements of activities, reported program revenues derive 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 – These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided or are, otherwise, directly affected by the services.
2. Program-Specific Operating Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-Specific Capital Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

### **Proprietary Funds Revenue and Expense Classifications**

In the proprietary fund's statements of revenues, expenses and changes in fund net position, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

### **Cash and Cash Equivalents**

The City pools the cash resources of its funds for cash management purposes. The Bowdle Economic Development Corporation, Water and Sewer Funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents.

## Equity Classifications

### Government-Wide Statements

Equity is classified as net assets and is comprised of two components: restricted net position and unrestricted net position. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

1. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position – All other net position that do not meet the definition of “restricted.”

### Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned, and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

### Application of Net Position and Fund Balance

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

### Fund Balance Classification Policies and Procedures

The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance – Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint.
- Assigned Fund Balance – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned Fund Balance – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. A committed fund balance established by the City Council through adoption of a resolution designating a fund balance is constrained for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The City does not have a formal minimum fund balance policy.

## **Note 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 below:

### **Deposits**

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified 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% 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 authorized to do business in South Dakota.

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, 2019 and 2018, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2019 and 2018, are as follows:

	Bank Balance	
	2019	2018
Insured (FDIC/NCUA)	\$ 536,508	\$ 548,654
Uninsured, collateral jointly held by State's/Town's agent in the name of the state and the pledging financial institution	39,904	78,471
	\$ 576,412	\$ 627,125



The City's carrying amount of deposits at December 31, 2019 and 2018, is as follows:

	2019	2018
Cash and cash equivalents	\$ 576,412	\$ 627,188

### 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 (c) 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.

As of December 31, 2019 and 2018, the City did not hold any investments as defined by the Governmental Accounting Standards Board. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

### Note 3 - Property Taxes

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

### Note 4 - Retirement Plan

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer, hybrid defined benefit plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

### Benefits Provided

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

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater than or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> 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 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of the assets will be greater than or equal to the accrued liabilities.

All benefits, except those depending on the member's accumulated contributions, are annually increased by the cost-of-living adjustment.

### **Contributions**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions (including those of the Bowdle Healthcare Center) made to the SDRS for the years ended December 31, 2019, 2018, and 2017, were \$249,889, \$237,994, and \$225,727, respectively, equal to the required contributions each year.

**Pension Liabilities (Assets) and Pension Expense**

At December 31, 2019 and 2018, SDRS is 100.09% and 100.02%, respectively, funded and, accordingly, has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System as of the measurement periods ending December 31, 2019 and 2018, for the City of Bowdle (including the Bowdle Healthcare Center) are as follows:

	2019	2018
Proportionate share of pension liability	\$ 23,283,432	\$ 23,163,099
Less proportionate share of net pension restricted for pension benefits	23,303,231	23,167,515
Proportionate share of net pension liability (asset)	\$ (19,799)	\$ (4,416)

At December 31, 2019 and 2018, the City (including the Bowdle Healthcare Center) had a liability (asset) of \$(19,799) and \$(4,416), respectively, for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2019 and 2018, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's (including the Bowdle Healthcare Center) share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the City's proportion was 0.1868324%, which is an decrease of 0.0075262% from its proportion measured as of June 30, 2018. At June 30, 2018, the City's proportion was 0.1893433%, which was an increase of 0.0100371% from its proportion measured as of June 30, 2017. The City's proportionate share of the net pension liability (asset) is not reported in financial statements shown under the modified cash basis of accounting.

**Actuarial Assumptions**

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

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

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

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

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

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

#### Discount Rate

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

#### Sensitivity of Liability (Asset) to Change in the Discount Rate

The following presents the City's (including the Bowdle Healthcare Center) proportionate share of net pension liability (asset) as of June 30, 2019, calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension liability (asset)	\$ 3,286,266	\$ (19,799)	\$ (2,713,645)

**Pension Plan Fiduciary Net Position**

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

**Note 5 - Significant Contingencies – Litigation**

At December 31, 2019 and 2018, the City was not involved in any litigation that would be material to the financial statements.

**Note 6 - Significant Commitments and Awards**

In December 2019, the City was awarded \$578,000 of Community Access Funds from the South Dakota Department of Transportation to assist in a planned Main Street project. In October 2019, the City was obligated from the United States Department of Agriculture Rural Development loan and grant funds to be used for future water and sewer line replacement of \$1,172,000 and \$400,000, respectively. No contractual commitments for use of these awarded funds has been agreed to by the City as of the date of issuance of these financial statements.

**Note 7 - Restricted Net Position**

Restricted net position for the years ended December 31, 2019 and 2018, were as follows:

<u>Fund</u>	<u>Restricted By</u>	<u>2019</u>	<u>2018</u>
Water	Contractual Agreement	\$ 23,338	\$ 20,034
Sewer	Contractual Agreement	23,338	20,034

**Note 8 - 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 years ended December 31, 2019 and 2018, the City managed its risks as follows:

**Employee Health Insurance**

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

**Liability Insurance**

The City purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims from these risks have not exceeded the liability coverage during the past three years.

**Workers' Compensation**

The City joined the South Dakota Municipal League Workers' Compensation 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 workers' 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 workers' compensation claims. The City pays an annual premium to provide workers' compensation coverage to its employees under a self-funded program and the premiums are paid 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 provides for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

**Note 9 - Violations of Finance-Related Legal and Contractual Provisions**

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	Year ended 12/31/19
General Fund	
Public Safety - Fire	\$ 8,738
	Year ended 12/31/18
General Fund	
General Government - Other	\$ 195
Health and Welfare - Health	787

The City plans to exercise more stringent budgetary controls to ensure expenditures in excess of appropriations at the department level will not occur.

**Note 10 - Deficit Net Position**

As of December 31, 2019, the Water Fund had a deficit net position in the amount of \$55,713. The City plans to take measures to increase rates to increase revenues and make operating transfers from the General Fund, as necessary, to address the deficit net position.

**Note 11 - Subsequent Events**

In June 2020, the City was obligated from the United States Department of Agriculture Rural Development loan funds to be used for street improvements of \$255,000. In January 2021, the City agreed to a line of credit with First State Bank of Roscoe up to \$350,000, maturing January 2022, to provide gap financing for costs related to the planned Main Street project.



Supplementary Information  
December 31, 2019 and 2018  
**City of Bowdle**



City of Bowdle  
 Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions  
 December 31, 2019

Pension Plan	Fiscal Year Ending *	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2019	0.1868%	(19,799)	\$ 3,883,498	-0.5%	100.09%
SDRS	6/30/2018	0.1893%	(4,416)	3,733,310	-0.1%	100.02%
SDRS	6/30/2017	0.1793%	(16,272)	3,413,782	-0.5%	100.10%
SDRS	6/30/2016	0.1677%	566,379	3,188,269	17.8%	96.89%

\*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30.

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2019	\$ 249,889	249,889	\$ -	\$ 4,055,995	6.16%
SDRS	12/31/2018	237,994	237,994	-	3,764,451	6.32%
SDRS	12/31/2017	225,727	225,727	-	3,531,721	6.39%
SDRS	12/31/2016	204,506	204,506	-	3,408,421	6.00%
SDRS	12/31/2015	88,579	88,579	-	1,476,315	6.00%

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Bowdle  
Schedules of Changes in Long-Term Debt  
Years Ended December 31, 2019 and 2018

<u>Indebtedness</u>	<u>Long-Term Debt 1/1/18</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Long-Term Debt 12/31/18</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Long-Term Debt 12/31/19</u>
USDA Rural Development Loan 1	\$ 653,765	\$ -	\$ 11,966	\$ 641,799	\$ -	\$ 12,361	\$ 629,438
USDA Rural Development Loan 2	-	133,112	742	132,370	2,176	2,261	132,285
	<u>\$ 653,765</u>	<u>\$ 133,112</u>	<u>\$ 12,708</u>	<u>\$ 774,169</u>	<u>\$ 2,176</u>	<u>\$ 14,622</u>	<u>\$ 761,723</u>

City of Bowdle  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2019 and 2018

	2019			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 105,550	\$ 105,550	\$ 102,821	\$ (2,729)
313 General sales and use taxes	132,084	132,084	148,752	16,668
319 Penalties and interest on delinquent taxes	200	200	330	130
Total taxes	<u>237,834</u>	<u>237,834</u>	<u>251,903</u>	<u>14,069</u>
320 Licenses and permits	<u>1,820</u>	<u>1,820</u>	<u>2,441</u>	<u>621</u>
330 Intergovernmental revenue				
334 State grants	1,000	1,000	940	(60)
335 State shared revenue				
335.01 Bank franchise tax	1,000	1,000	884	(116)
335.02 Motor vehicle commercial prorated	2,000	2,000	2,712	712
335.03 Liquor tax reversion	3,500	3,500	3,272	(228)
335.04 Motor vehicle licenses (5%)	11,000	11,000	11,990	990
335.08 Local government highway and bridge fund	22,000	22,000	20,888	(1,112)
338 County shared revenue				
338.01 County road tax (25%)	768	768	768	-
338.03 County wheel tax	750	750	1,623	873
Total intergovernmental revenue	<u>42,018</u>	<u>42,018</u>	<u>43,077</u>	<u>1,059</u>
340 Charges for goods and services				
344 Sanitation	<u>9,500</u>	<u>9,500</u>	<u>8,155</u>	<u>(1,345)</u>
Total charges for goods and services	<u>9,500</u>	<u>9,500</u>	<u>8,155</u>	<u>(1,345)</u>
350 Fines and forfeits				
354 Library	<u>-</u>	<u>-</u>	<u>400</u>	<u>400</u>
Total fines and forfeits	<u>-</u>	<u>-</u>	<u>400</u>	<u>400</u>
360 Miscellaneous revenue				
361 Investment earnings	3,000	3,000	5,398	2,398
362 Rentals	25,514	25,514	25,223	(291)
369 Other	8,752	8,752	8,707	(45)
Total miscellaneous revenue	<u>37,266</u>	<u>37,266</u>	<u>39,328</u>	<u>2,062</u>
Total revenues	<u>328,438</u>	<u>328,438</u>	<u>345,304</u>	<u>16,866</u>

City of Bowdle  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2019 and 2018

	2019			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Expenditures				
410 General government				
411.5 Contingency	10,000	10,000	-	10,000
Amount transferred	-	-	-	-
412 Executive	41,871	44,871	41,183	3,688
413 Elections	600	600	25	575
414 Financial administration	62,700	67,500	49,526	17,974
419 Other	9,650	9,650	4,991	4,659
Total general government	124,821	132,621	95,725	36,896
420 Public safety				
422 Fire	23,150	23,150	31,888	(8,738)
Total public safety	23,150	23,150	31,888	(8,738)
430 Public works				
431 Highways and streets	215,000	261,500	139,075	122,425
432 Sanitation	6,150	8,950	6,191	2,759
435 Airport	2,375	2,375	1,757	618
437 Cemeteries	186	286	133	153
439 Transit	900	900	600	300
Total public works	224,611	274,011	147,756	126,255
440 Health and welfare				
441 Health	2,500	2,500	444	2,056
Total health and welfare	2,500	2,500	444	2,056
450 Culture and recreation				
452 Parks	18,825	18,825	11,189	7,636
455 Libraries	36,350	52,502	38,186	14,316
Total culture and recreation	55,175	71,327	49,375	21,952
460 Conservation and development				
465 Economic development and assistance (industrial development)	10,230	12,230	11,123	1,107
Total conservation and development	10,230	12,230	11,123	1,107
Total expenditures	440,487	515,839	336,311	179,528

City of Bowdle  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2019 and 2018

	2019			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Other Financing Uses				
391.03 Sale of municipal property	-	-	45,759	45,759
391.04 Compensation for loss or damage to capital assets	-	-	6,132	6,132
Total other financing uses	-	-	51,891	51,891
Excess of Revenue over (under) Expenditures	(112,049)	(187,401)	60,884	248,285
Fund Balance - Beginning	334,513	334,513	334,513	-
Fund Balance - Ending	<u>\$ 222,464</u>	<u>\$ 147,112</u>	<u>\$ 395,397</u>	<u>\$ 248,285</u>

City of Bowdle  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2019 and 2018

	2018			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 103,656	\$ 103,656	\$ 103,804	\$ 148
313 General sales and use taxes	147,084	147,084	208,831	61,747
319 Penalties and interest on delinquent taxes	200	200	310	110
Total taxes	250,940	250,940	312,945	62,005
320 Licenses and permits	2,036	2,036	2,270	234
330 Intergovernmental revenue				
334 State grants	-	-	1,065	1,065
335 State shared revenue				
335.01 Bank franchise tax	600	600	989	389
335.02 Motor vehicle commercial prorated	2,000	2,000	2,715	715
335.03 Liquor tax reversion	2,000	2,000	3,157	1,157
335.04 Motor vehicle licenses (5%)	10,000	10,000	12,784	2,784
335.08 Local government highway and bridge fund	12,000	12,000	20,330	8,330
338 County shared revenue				
338.01 County road tax (25%)	768	768	768	-
338.03 County wheel tax	750	750	1,619	869
Total intergovernmental revenue	28,118	28,118	43,427	15,309
340 Charges for goods and services				
344 Sanitation	9,500	9,500	8,551	(949)
Total charges for goods and services	9,500	9,500	8,551	(949)
360 Miscellaneous revenue				
361 Investment earnings	2,400	2,400	3,261	861
362 Rentals	30,425	30,425	22,445	(7,980)
369 Other	2,584	2,584	14,389	11,805
Total miscellaneous revenue	35,409	35,409	40,095	4,686
Total revenues	326,003	326,003	407,288	81,285

City of Bowdle  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2019 and 2018

	2018			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Expenditures				
410 General government				
411.5 Contingency	10,000	10,000	-	10,000
Amount transferred	-	-	-	-
412 Executive	41,450	41,450	41,391	59
413 Elections	600	600	-	600
414 Financial administration	30,650	66,500	45,609	20,891
419 Other	10,100	10,100	10,295	(195)
Total general government	92,800	128,650	97,295	31,355
420 Public safety				
422 Fire	22,800	35,300	28,705	6,595
Total public safety	22,800	35,300	28,705	6,595
430 Public works				
431 Highways and streets	215,200	240,000	204,379	35,621
432 Sanitation	7,100	10,917	10,091	826
435 Airport	2,425	2,425	2,274	151
437 Cemeteries	262	262	110	152
439 Transit	925	925	600	325
Total public works	225,912	254,529	217,454	37,075
440 Health and welfare				
441 Health	1,150	1,150	1,937	(787)
Total health and welfare	1,150	1,150	1,937	(787)
450 Culture and recreation				
452 Parks	18,550	18,550	11,988	6,562
455 Libraries	37,700	37,700	36,423	1,277
Total culture and recreation	56,250	56,250	48,411	7,839
460 Conservation and development				
465 Economic development and assistance (industrial development)	4,100	6,600	4,806	1,794
Total conservation and development	4,100	6,600	4,806	1,794
Total expenditures	403,012	482,479	398,608	83,871

City of Bowdle  
 Budgetary Comparison Schedules—General Fund  
 Years Ended December 31, 2019 and 2018

	2018			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Other Financing Sources (Uses)				
391.03 Sale of Municipal property	-	-	4,889	4,889
Total other financing sources (uses)	-	-	4,889	4,889
Excess of Revenue over (under) Expenditures	(77,009)	(156,476)	13,569	170,045
Fund Balance - Beginning	320,944	320,944	320,944	-
Fund Balance - Ending	<u>\$ 243,935</u>	<u>\$ 164,468</u>	<u>\$ 334,513</u>	<u>\$ 170,045</u>



**Note 1 - Budgets and Budgetary Accounting**

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

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

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, special revenue funds and capital projects funds.

The City did not encumber any amounts at December 31, 2019 and 2018.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budget for the General Fund is adopted on a basis consistent with a modified cash basis of accounting.

**Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences**

The financial statements prepared on the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the governmental funds statements of revenues, expenditures and changes in fund balances; however, in the budgetary schedules, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

**Note 3 - Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Pension Contributions**

**Changes of Benefit Provision**

No significant changes.

**Changes of Assumptions**

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

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

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



**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***

The City Council  
City of Bowdle  
Bowdle, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund (except as described below) of the City of Bowdle (the City) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated October 12, 2021. In our report, we issued an adverse opinion on the Bowdle Healthcare Center Fund and discretely presented component unit, and a qualified opinion on the business-type activities because the statements of the primary government excluded the Bowdle Healthcare Center Fund and the City’s legally separate component unit. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been 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 a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies 2018-001, 2018-002, 2019-001, 2019-002, described in the accompanying schedule of findings 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 2018-003 and 2019-003 described in the accompanying schedule of findings to be a significant deficiency.

### **Compliance and Other Matters**

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

### **City of Bowdle's Responses to Findings**

The City's response to the findings identified in our audits are described in the accompanying schedule of findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Aberdeen, South Dakota  
October 12, 2021

**2019-001 and 2018-001 – Auditor Preparation of Financial Statements, Footnotes, and Audit Adjustments**

**Material Weakness**

*Criteria:* The City's internal control structure should be designed to provide for the preparation of the financial statements and required footnotes, which includes having an adequate system for recording and processing all entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

*Condition:* The City of Bowdle does not have an internal control system designed to provide for the preparation of the financial statements being audited and as part of the audit the auditors prepared the financial statements and related footnotes. As a part of the financial statement preparation process, we proposed audit adjustments that were not identified as a result of the City's internal control and, therefore, could result in a misstatement of the City's financial statements. Approximately five adjustments were proposed to the 2018 and 2019 financial statements to correct identified misstatements which were noted across all funds.

*Cause:* The City does not have adequate staff trained to prepare financial statements and the related footnotes which could cause the need for auditors to, at times, propose material journal entries. Additionally, the accounting system that is utilized in transaction processing and financial reporting is not adequately designed to support the effective and accurate preparation of financial statements in accordance with the modified cash basis of accounting.

*Effect:* This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The lack of an adequately designed financial transaction processing and financial reporting system specific for governmental accounting under the modified cash basis increases the risk of misstatements present in the financial statements.

*Recommendation:* This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence. We also recommend that the City implement and utilize a governmental accounting system that is adequately designed for fund accounting and set up for transaction processing on a modified cash basis that aligns with the City's financial reporting on a modified cash basis.

*Views of Responsible Officials:* Management agrees with the finding.

**2019-002 and 2018-002 - Lack of Segregation of Duties**

**Material Weakness**

*Criteria:* A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

*Condition:* The City of Bowdle has a limited number of office personnel and, accordingly, does not have an adequate segregation of duties within the accounting function to ensure adequate internal controls in revenue, expenditures, and payroll functions. Additionally, the lack of segregation of duties prohibits the review of posted manual adjusting journal entries by an individual separate from the preparer for reasonableness and propriety.

*Cause:* The City has insufficient number of staff to adequately separate duties.

*Effect:* This condition increases the risk of fraud or misstatements present within the financial statements and inhibits internal control over review of manual adjusting journal entries posted and impacting the financial statements.

*Recommendation:* This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. We also recommend that the City Council adequately review the accounting transactions and reports prepared by the Finance Officer on a regular basis.

*Views of Responsible Officials:* Management agrees with the finding.

**2019-003 and 2018-003 – Violations of South Dakota Codified Laws (SDCL)**

**Significant Deficiency**

*Criteria:* The City's system of internal controls should be designed to ensure compliance with all applicable SDCL's. SDCL 9-18-1 states that the governing body shall publish, within twelve business days, the minutes for each meeting of the governing body including a detailed statement of all expenditures of money. SDCL 9-21-9, 9.1, 9.2, 9-21-10, and 9-21-15 stipulate that the government must refrain from spending in excess of the amount appropriated for any purpose or any department for each year except as otherwise specially provided for in statute. SDCL 9-22-21 stipulates that the annual report is to be published in the official newspaper within thirty days of being presented to the board or within thirty days of completion of the annual audit.

*Condition:* In our testing of compliance with SDCL's as part of our audit, we identified in 2019 certain minutes that were not published within twelve business days as required by SDCL 9-18-1. In 2018 and 2019, we identified certain departments for which expenditures exceeded appropriations as prohibited by SDCL's 9-21-9, 9.1, 9.2, 9-21-10, and 9-21-15. In 2018 and 2019, we identified that the City did not publish the annual report within thirty days of being presented to the board in accordance with SDCL 9-22-21.

*Cause:* There was a lack of oversight by the City Council, Mayor, and Finance Officer at those respective times to ensure that these actions were taken to comply fully with these SDCL's.

*Effect:* The existence of noncompliance is a violation of State of South Dakota codified laws and may lead to potential penalties, fines, or other ramifications.

*Recommendation:* We recommend management and the City Council review current controls and procedures over these SDCL's as well as the published Department of Legislative Audit checklist of statutory controls to revise controls and procedures to ensure compliance with these laws on a go-forward basis.

*Views of Responsible Officials:* Management agrees with the finding.