

TOWN OF BUFFALO, SOUTH DAKOTA

Financial Statements

December 31, 2020 and 2021



Town of Buffalo, South Dakota
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Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Town Board of Trustees
Town of Buffalo, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Buffalo, South Dakota (the Town), as of and for the years ended December 31, 2020 and 2021 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 30, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies 2021-001, 2021-002, and 2021-003 described in the accompanying Schedule of Findings and Management's Responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*. Noncompliance is reported as item 2021-003.

Town of Buffalo, South Dakota's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Management's Responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Casey Peterson, LTD

Casey Peterson, LTD

Rapid City, South Dakota

January 30, 2023

Town of Buffalo, South Dakota
Schedule of Findings and Management's Responses
December 31, 2020 and 2021

Material Weakness

Internal Controls Related to Drafting Financial Statements

2021-001 *Condition:* As the auditor, we were requested to draft the financial statements and the accompanying notes to the financial statements.

Criteria: Establishing internal controls over the preparation of the financial statements is the responsibility of management.

Cause: Due to the limited number of employees, the Town does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect: The Town engages its auditor to draft the financial statements and assist in the conversion to the modified cash basis of accounting for financial statement presentation.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the Town's auditors drafting the financial statements because of cost or other considerations. If the Town chooses not to accept this risk, training should be provided to those employees responsible for drafting the financial statements and related notes.

Management's Response: The Town accepts the risk related to hiring the auditor to prepare the financial statements and notes to the financial statements.

Material Weakness

Internal Controls Related to Segregation of Duties

2021-002 *Condition:* The lack of accounting experience among the few staff members does not allow the Town to perform oversight over the cash receipts and disbursements processes as well as separate incompatible accounting functions or processes that would be necessary under a properly designed system of internal controls.

Criteria: The Town should have safeguards in place to separate accounting functions which is fundamental to a good system of internal controls.

Cause: The Town office has a small staff, and there is a limited number of people in the Town's governance with an accounting background.

Effect: The Finance Clerk performs the billing, receives payments, pays bills, processes payroll, and enters data into the system and other functions with limited oversight. The possibility of fraud or errors occurring and not being detected or corrected is present. There is a potential that intentional or unintentional errors could be made and not be detected.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with one person performing all accounting and finance functions with limited oversight, because of cost or other considerations. The Town Board should review bank statements, bank account reconciliations, monthly financial statements, budget reports, utility billing aging reports, and other financial reports in order to provide oversight of the finance function of the Town.

Management's Response: The Town accepts the risk related to the segregation of duties and will implement additional reviews of financial information at the monthly board meetings.

Town of Buffalo, South Dakota
Schedule of Findings and Management's Responses (Continued)
December 31, 2020 and 2021

Material Weakness and Noncompliance
Internal Controls Related to Statutory Compliance

2021-003 *Condition:* As noted in the budgetary comparison schedules, the Town overspent the approved amount appropriated for certain departments for the years ended December 31, 2020 and 2021. The budget was not prepared in compliance with State guidelines. In addition, the Town did not submit annual reports as required.

Criteria: The Town's control structure should be designed to ensure compliance with South Dakota Codified Laws for municipal finances. The Town violated provisions of SDCL 9-21-9 and SDCL 9-22-21.

Cause: There is a lack of oversight in the control processes, limited staff size, and turnover in staff during the year.

Effect: The Town was not compliant with South Dakota Codified Law.

Auditor's Recommendation: We recommend that management review the budget monthly with the financial statements. Should there be changes in expected spending for certain departments, the budget should be amended. We suggest the new finance officer receive training related to applicable statutes.

Management's Response: Management will review budgets more frequently to identify possible budget overages and make amendments as necessary. Management will obtain training to become more familiar with State statutes.

Independent Auditor's Report

Town Board of Trustees
Town of Buffalo, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Buffalo, South Dakota (the Town), as of and for the years ended December 31, 2020 and 2021, and the related notes to the financial statements, which collectively comprise Town of Buffalo, South Dakota's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund, of the Town of Buffalo, South Dakota as of December 31, 2020 and 2021, and the respective changes in financial position-modified cash basis for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary comparison information, Schedule of Net Pension Liability (Asset), Schedule of Pension Contributions, and list of Town Officials, which are the responsibility of management, are presented for purposes of additional analysis and to supplement the basic financial statements and are not a required part of the basic financial statements.

We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2023 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Casey Peterson, LTD

Casey Peterson, LTD

Rapid City, South Dakota

January 30, 2023

BASIC FINANCIAL STATEMENTS

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Town of Buffalo, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2020

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 972,312	\$ 348,959	\$ 1,321,271
TOTAL ASSETS	<u>\$ 972,312</u>	<u>\$ 348,959</u>	<u>\$ 1,321,271</u>
NET POSITION			
Restricted for:			
Debt Service	\$ -	\$ 74,509	\$ 74,509
Customer Deposits	-	42,629	42,629
Unrestricted	<u>972,312</u>	<u>231,821</u>	<u>1,204,133</u>
TOTAL NET POSITION	<u>\$ 972,312</u>	<u>\$ 348,959</u>	<u>\$ 1,321,271</u>

The accompanying notes are an integral part of this statement.

Town of Buffalo, South Dakota
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2020

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental Activities:			
General Government	\$ 152,812	\$ 34,096	62,178
Public Safety	49,215	-	-
Public Works	89,697	-	-
Health and Welfare	7,016	-	-
Culture and Recreation	45,682	-	-
Total Governmental Activities	<u>344,422</u>	<u>34,096</u>	<u>62,178</u>
Business-type Activities:			
Water	126,073	210,944	-
Sewer	54,048	53,842	-
Sanitation	91,547	57,666	-
Liquor	3,769	12,000	-
Total Business-type Activities	<u>275,437</u>	<u>334,452</u>	<u>-</u>
Total Primary Government	<u>\$ 619,859</u>	<u>\$ 368,548</u>	<u>\$ 62,178</u>

GENERAL RECEIPTS AND TRANSFERS

Taxes:

Property Taxes

Sales Tax

State Shared Receipts

Unrestricted Investment Earnings

Transfers

Total General Receipts and Transfers

CHANGE IN NET POSITION

NET POSITION - BEGINNING

NET POSITION - ENDING

The accompanying notes are an integral part of this statement.

Net (Disbursements) Receipts and
Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (56,538)	\$ -	\$ (56,538)
(49,215)	-	(49,215)
(89,697)	-	(89,697)
(7,016)	-	(7,016)
<u>(45,682)</u>	<u>-</u>	<u>(45,682)</u>
<u>(248,148)</u>	<u>-</u>	<u>(248,148)</u>
-	84,871	84,871
-	(206)	(206)
-	(33,881)	(33,881)
<u>-</u>	<u>8,231</u>	<u>8,231</u>
<u>-</u>	<u>59,015</u>	<u>59,015</u>
<u>(248,148)</u>	<u>59,015</u>	<u>(189,133)</u>
123,549	-	123,549
204,433	-	204,433
48,941	-	48,941
9,444	-	9,444
<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
<u>361,367</u>	<u>25,000</u>	<u>386,367</u>
113,219	84,015	197,234
<u>859,093</u>	<u>264,944</u>	<u>1,124,037</u>
<u>\$ 972,312</u>	<u>\$ 348,959</u>	<u>\$ 1,321,271</u>

The accompanying notes are an integral part of this statement.

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Town of Buffalo, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2020

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>972,312</u>
TOTAL ASSETS	\$ <u><u>972,312</u></u>
FUND BALANCES	
Unassigned	\$ <u>972,312</u>
TOTAL FUND BALANCES	\$ <u><u>972,312</u></u>

The accompanying notes are an integral part of this statement.

Town of Buffalo, South Dakota
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Modified Cash Basis - Governmental Funds
For the Year Ended December 31, 2020

	General Fund
RECEIPTS	
Taxes:	
General Property Taxes	\$ 123,549
General Sales and Use Taxes	204,433
Licenses and Permits	3,281
Intergovernmental Receipts:	
Federal Grants	62,178
State Shared Receipts:	
Other	47,753
County Road Tax	1,188
Charges for Goods and Services:	
General Government	21,726
Fines and Forfeits:	
Court Fines and Costs	22
Miscellaneous Revenue:	
Investment Earnings	9,444
Rent Receipts	1,700
Operating Agreement	7,367
Total Receipts	482,641
DISBURSEMENTS	
General Government:	
Legislative	32,608
Financial Administration	59,979
Other	60,225
Public Safety:	
Police	42,500
Fire	6,715
Public Works:	
Highways and Streets	89,697
Health and Welfare	7,016
Culture and Recreation:	
Recreation Center	27,865
Parks	15,377
Museum	2,440
Total Disbursements	344,422

The accompanying notes are an integral part of this statement.

	<u>General Fund</u>
OTHER FINANCING USES	
Transfers Out	<u>(25,000)</u>
NET CHANGE IN FUND BALANCE	113,219
FUND BALANCE - BEGINNING	<u>859,093</u>
FUND BALANCE - ENDING	<u>\$ 972,312</u>

The accompanying notes are an integral part of this statement.

Town of Buffalo, South Dakota
Balance Sheet - Modified Cash Basis - Proprietary Funds
December 31, 2020

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Liquor Fund</u>	<u>Total Proprietary Funds</u>
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 199,008	\$ 110,457	\$ (1,657)	\$ 41,151	\$ 348,959
TOTAL ASSETS	<u>\$ 199,008</u>	<u>\$ 110,457</u>	<u>\$ (1,657)</u>	<u>\$ 41,151</u>	<u>\$ 348,959</u>
NET POSITION					
Restricted for:					
Revenue Bond Debt Service	\$ 74,509	\$ -	\$ -	\$ -	\$ 74,509
Customer Deposits	42,629	-	-	-	42,629
Unrestricted	<u>81,870</u>	<u>110,457</u>	<u>(1,657)</u>	<u>41,151</u>	<u>231,821</u>
TOTAL NET POSITION	<u>\$ 199,008</u>	<u>\$ 110,457</u>	<u>\$ (1,657)</u>	<u>\$ 41,151</u>	<u>\$ 348,959</u>

The accompanying notes are an integral part of this statement.

Town of Buffalo, South Dakota
Statement of Revenues, Expenses, and Changes in Fund Net Position -
Modified Cash Basis - Proprietary Funds
December 31, 2020

	Water Fund	Sewer Fund	Sanitation Fund	Liquor Fund	Total Proprietary Funds
OPERATING RECEIPTS					
Sales	\$ 67,188	\$ 53,842	\$ 57,666	\$ 12,000	\$ 190,696
Revenue Dedicated to Servicing Debt	74,509	-	-	-	74,509
Rent Agreements	69,247	-	-	-	69,247
Total Operating Receipts	<u>210,944</u>	<u>53,842</u>	<u>57,666</u>	<u>12,000</u>	<u>334,452</u>
OPERATING DISBURSEMENTS					
Personnel	19,764	22,956	11,136	-	53,856
Materials	45,877	30,474	58,761	1,642	136,754
Other Operating Expenses	10,139	618	3,845	2,127	16,729
Total Operating Disbursements	<u>75,780</u>	<u>54,048</u>	<u>73,742</u>	<u>3,769</u>	<u>207,339</u>
OPERATING INCOME (LOSS)	<u>135,164</u>	<u>(206)</u>	<u>(16,076)</u>	<u>8,231</u>	<u>127,113</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)					
Capital Purchases	-	-	(17,805)	-	(17,805)
Debt Service Payments	(29,274)	-	-	-	(29,274)
Interest	(21,019)	-	-	-	(21,019)
Total Nonoperating Disbursements	<u>(50,293)</u>	<u>-</u>	<u>(17,805)</u>	<u>-</u>	<u>(68,098)</u>
TRANSFERS					
Transfers In	-	-	25,000	-	25,000
CHANGE IN NET POSITION	84,871	(206)	(8,881)	8,231	84,015
NET POSITION - BEGINNING	<u>114,137</u>	<u>110,663</u>	<u>7,224</u>	<u>32,920</u>	<u>264,944</u>
NET POSITION - ENDING	<u>\$ 199,008</u>	<u>\$ 110,457</u>	<u>\$ (1,657)</u>	<u>\$ 41,151</u>	<u>\$ 348,959</u>

The accompanying notes are an integral part of this statement.

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Town of Buffalo, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,078,302	\$ 329,336	\$ 1,407,638
TOTAL ASSETS	\$ 1,078,302	\$ 329,336	\$ 1,407,638
NET POSITION			
Restricted for:			
Debt Service	\$ -	\$ 67,960	\$ 67,960
Customer Deposits	-	42,929	42,929
Unrestricted	1,078,302	218,447	1,296,749
TOTAL NET POSITION	\$ 1,078,302	\$ 329,336	\$ 1,407,638

The accompanying notes are an integral part of this statement.

Town of Buffalo, South Dakota
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2021

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Capital Grants, Loans and Contributions
PRIMARY GOVERNMENT			
Governmental Activities:			
General Government	\$ 100,773	\$ 24,506	\$ -
Public Safety	18,749	-	-
Public Works	94,388	-	-
Health and Welfare	5,708	-	-
Culture and Recreation	40,554	-	-
Total Governmental Activities	<u>260,172</u>	<u>24,506</u>	<u>-</u>
Business-type Activities:			
Water	228,554	136,697	-
Sewer	75,342	83,027	-
Sanitation	63,036	53,639	-
Liquor	1,054	-	-
Total Business-type Activities	<u>367,986</u>	<u>273,363</u>	<u>-</u>
Total Primary Government	<u>\$ 628,158</u>	<u>\$ 297,869</u>	<u>\$ -</u>

GENERAL RECEIPTS AND TRANSFERS

Taxes:

Property Taxes

Sales Tax

State Shared Receipts

Unrestricted Investment Earnings

Miscellaneous Receipts

Transfers

Total General Receipts and Transfers

CHANGE IN NET POSITION

NET POSITION - BEGINNING

NET POSITION - ENDING

The accompanying notes are an integral part of this statement.

Net (Disbursements) Receipts and
Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (76,267)	\$ -	\$ (76,267)
(18,749)	-	(18,749)
(94,388)	-	(94,388)
(5,708)	-	(5,708)
(40,554)	-	(40,554)
(235,666)	-	(235,666)
-	(91,857)	(91,857)
-	7,685	7,685
-	(9,397)	(9,397)
-	(1,054)	(1,054)
-	(94,623)	(94,623)
(235,666)	(94,623)	(330,289)
127,595	-	127,595
220,903	-	220,903
56,200	-	56,200
8,398	-	8,398
3,560	-	3,560
(75,000)	75,000	-
341,656	75,000	416,656
105,990	(19,623)	86,367
972,312	348,959	1,321,271
\$ 1,078,302	\$ 329,336	\$ 1,407,638

The accompanying notes are an integral part of this statement.

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Town of Buffalo, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2021

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>1,078,302</u>
TOTAL ASSETS	\$ <u><u>1,078,302</u></u>
FUND BALANCES	
Unassigned	\$ <u>1,078,302</u>
TOTAL FUND BALANCES	\$ <u><u>1,078,302</u></u>

The accompanying notes are an integral part of this statement.

Town of Buffalo, South Dakota
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Modified Cash Basis - Governmental Funds
For the Year Ended December 31, 2021

	General Fund
RECEIPTS	
Taxes:	
General Property Taxes	\$ 127,595
General Sales and Use Taxes	220,903
Licenses and Permits	1,020
Intergovernmental Receipts:	
State Shared Receipts:	
Other	55,012
County Road Tax	1,188
Charges for Goods and Services:	
General Government	15,393
Fines and Forfeits:	
Court Fines and Costs	150
Miscellaneous Revenue:	
Investment Earnings	8,398
Operating Agreement	7,943
Other	3,560
	441,162
Total Receipts	441,162
DISBURSEMENTS	
General Government:	
Legislative	12,873
Financial Administration	63,304
Other	24,596
Public Safety:	
Police	10,750
Fire	7,999
Public Works:	
Highways and Streets	35,625
Health and Welfare	5,708
Culture and Recreation:	
Recreation	20,699
Parks	16,291
Museum	3,564
Capital Outlay	58,763
	260,172
Total Disbursements	260,172

The accompanying notes are an integral part of this statement.

	<u>General Fund</u>
OTHER FINANCING USES	
Transfers Out	<u>(75,000)</u>
NET CHANGE IN FUND BALANCE	105,990
FUND BALANCE - BEGINNING	<u>972,312</u>
FUND BALANCE - ENDING	<u>\$ 1,078,302</u>

The accompanying notes are an integral part of this statement.

Town of Buffalo, South Dakota
Balance Sheet - Modified Cash Basis - Proprietary Funds
December 31, 2021

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Liquor Fund</u>	<u>Total Proprietary Funds</u>
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 157,151	\$ 118,142	\$ 13,946	\$ 40,097	\$ 329,336
TOTAL ASSETS	<u>\$ 157,151</u>	<u>\$ 118,142</u>	<u>\$ 13,946</u>	<u>\$ 40,097</u>	<u>\$ 329,336</u>
NET POSITION					
Restricted for:					
Revenue Bond Debt Service	\$ 67,960	\$ -	\$ -	\$ -	\$ 67,960
Customer Deposits	42,929	-	-	-	42,929
Unrestricted	<u>46,262</u>	<u>118,142</u>	<u>13,946</u>	<u>40,097</u>	<u>218,447</u>
TOTAL NET POSITION	<u>\$ 157,151</u>	<u>\$ 118,142</u>	<u>\$ 13,946</u>	<u>\$ 40,097</u>	<u>\$ 329,336</u>

The accompanying notes are an integral part of this statement.

Town of Buffalo, South Dakota
Statement of Revenues, Expenses, and Changes in Fund Net Position -
Modified Cash Basis - Proprietary Funds
For the Year Ended December 31, 2021

	Water Fund	Sewer Fund	Sanitation Fund	Liquor Fund	Total Proprietary Funds
OPERATING RECEIPTS					
Charges for Services	\$ 67,043	\$ 83,027	\$ 53,639	\$ -	\$ 203,709
Revenue Dedicated to Servicing Debt	67,960	-	-	-	67,960
Rent Agreements	1,694	-	-	-	1,694
Total Operating Receipts	<u>136,697</u>	<u>83,027</u>	<u>53,639</u>	<u>-</u>	<u>273,363</u>
OPERATING DISBURSEMENTS					
Personnel	20,089	22,929	10,947	-	53,965
Materials	28,366	43,007	45,535	38	116,946
Other Operating Expenses	15,072	9,406	4,558	1,016	30,052
Total Operating Disbursements	<u>63,527</u>	<u>75,342</u>	<u>61,040</u>	<u>1,054</u>	<u>200,963</u>
OPERATING INCOME (LOSS)	<u>73,170</u>	<u>7,685</u>	<u>(7,401)</u>	<u>(1,054)</u>	<u>72,400</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)					
Capital Purchases	(114,734)	-	(1,996)	-	(116,730)
Debt Service Payments	(29,938)	-	-	-	(29,938)
Interest	(20,355)	-	-	-	(20,355)
Total Nonoperating Disbursements	<u>(165,027)</u>	<u>-</u>	<u>(1,996)</u>	<u>-</u>	<u>(167,023)</u>
TRANSFERS					
Transfers In	50,000	-	25,000	-	75,000
CHANGE IN NET POSITION	(41,857)	7,685	15,603	(1,054)	(19,623)
NET POSITION - BEGINNING	<u>199,008</u>	<u>110,457</u>	<u>(1,657)</u>	<u>41,151</u>	<u>348,959</u>
NET POSITION - ENDING	<u>\$ 157,151</u>	<u>\$ 118,142</u>	<u>\$ 13,946</u>	<u>\$ 40,097</u>	<u>\$ 329,336</u>

The accompanying notes are an integral part of this statement.

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The reporting entity of the Town of Buffalo, South Dakota (the Town) consists of the primary government which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity; those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, the Town of Buffalo.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Town 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 Town (primary government). The Town may also be financially accountable for another organization if that organization is fiscally dependent on the Town.

Based on the application of these criteria, the Town does not have any component units.

B. BASIS OF PRESENTATION

Government-wide Financial Statements:

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

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

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, receipts, and disbursements. Funds are organized into three major categories: governmental, proprietary, and fiduciary. 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 Town, or if it meets the following criteria:

1. Total assets, liabilities, receipts, or disbursements 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, receipts, or disbursements 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 Town are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the Town. 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.

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 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.

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). This fund is a major fund.

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). This fund is a major fund.

Liquor Fund- Financed primarily by consumer charges, this fund accounts for the construction and operation of the municipal bar and related equipment. This fund is a major fund.

Solid Waste Fund - Financed primarily by user charges, this fund accounts for the construction and operation of the municipal rubble site facilities, and the municipal garbage compaction/baling and disposal/hauling operations. This fund is a major fund.

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town'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.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds and are used to account for resources held by the Town in a purely custodial capacity (assets equal liabilities). The Town did not have fiduciary funds as of December 31, 2020 or 2021.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The Town's basis of accounting is the modified cash basis, which is a basis of accounting other than GAAP. Under GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the balance sheet reports only cash and cash equivalents (those investments with terms to maturity of 90 days or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed.

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Acceptable modifications to the cash basis of accounting implemented by the Town in these financial statements include the recording of certificates of deposit with maturities of greater than 90 days from the date of acquisition and inter-fund advances and borrowing arising from the use of a pooled cash account.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows of resources that do not arise from a customer 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.

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

D. CASH AND CASH EQUIVALENTS

The Town pools its cash resources for deposit purposes. The proprietary funds have access to their cash resources on demand.

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and short-term investments with a term to maturity at the date of acquisition of three months or less. Certificates of deposit whose term to maturity at the date of acquisition exceeds three months are carried at cost and included in cash and cash equivalents.

E. RESTRICTED CASH DEPOSITS

The Town maintains restricted cash deposits for utility customer account deposits and debt service reserves.

F. CAPITAL ASSETS

Government-wide Financial Statements:

Under the modified cash basis of accounting, the Town's capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary, to match the cost with the program that benefits from the use of the capital assets.

Fund Financial Statements:

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in proprietary fund operations are accounted for in the same manner in the government-wide financial statements.

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. LONG-TERM LIABILITIES

Long-term liabilities include, but are not limited to, a contract for deed and financing notes.

As discussed in Note 1.C. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The Town has not elected to modify its cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the Town. The Town does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balances. On the Statement of Activities, the principal and interest on these debt service payments are reported within the appropriate expense function.

H. REVENUE RECEIVED IN ADVANCE

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

I. PROGRAM RECEIPTS

Program receipts derive directly from the program itself or parties other than the Town's taxpayers or citizenry as a whole. Program receipts are classified into three categories as follows:

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

J. PROPRIETARY FUNDS RECEIPTS AND DISBURSEMENTS CLASSIFICATION

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

K. EQUITY CLASSIFICATIONS

Government-Wide Financial Statements:

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

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 does not meet the definition of Restricted Net Position.

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

It is the Town's policy to first use restricted net position prior to the use of unrestricted net position when a disbursement is made for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements:

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

Nonspendable - Includes amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

Restricted - Includes amounts that are constrained for specific purposes that are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - Includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the Board of Trustees and do not lapse at year-end.

Assigned - Includes amounts that are constrained by the Town management and are intended to be used for specific purposes but are neither restricted nor committed. The Town Board of Trustees has given management the authority to create assignments of fund equity.

Unassigned - Includes positive amounts within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The Town 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 as follows:

Deposits

The Town'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.

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

In general, SDCL 4-5-6 permits Town funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any banker or trust company designated by the political subdivision as its fiscal agent. As of December 31, 2020 and 2021, the Town did not hold any investments as defined by Governmental Accounting Standards Board. The Town also does not have a formal investment policy that addresses custodial credit risk, interest rate risk, or credit risk.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Town's policy is to credit all income from deposits and investments to the fund making the investment.

Under the modified cash basis of accounting, investments are stated at cost.

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

NOTE 4 - COMMITMENTS

The following is a summary of changes in long-term debt commitments for the years ended December 31:

	Beginning Balance 12/31/19	Additions	Payments	Ending Balance 12/31/20	
USDA SRF Loan	\$ 945,091	\$ -	\$ (29,274)	\$ 915,817	
	Beginning Balance 12/31/20	Additions	Payments	Ending Balance 12/31/21	Due in One Year
USDA SRF Loan	\$ 915,817	\$ -	\$ (29,938)	\$ 885,879	\$ 30,618

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 4 - COMMITMENTS (CONTINUED)

The Town has a USDA SRF loan for water system infrastructure. The loan matures in 2044. Interest is accrued at a rate of 2.25%. Interest expense for the years ended December 31, 2020 and 2021 was \$21,019 and \$20,355, respectively. This debt is paid by the Water Fund. This debt agreement requires the Town to assess a water surcharge for all customers and maintain a debt coverage ratio of 1. The Town complied with both provisions for the years ended December 31, 2020 and 2021.

Pledged Revenues

The Town has pledged customer surcharges of the Water Fund for the retirement of its loan listed in the table above. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison of principal and interest payments and total pledged revenue for the years ended December 31:

	2020	2021
Current Year Principal and Interest	\$ 50,293	\$ 50,293
Pledged Revenue:		
Water Fund Surcharge	\$ 74,509	\$ 67,960

The annual requirements to amortize all debt outstanding as of December 31, 2021 are as follows:

	Principal	Interest	Total
2022	\$ 30,618	\$ 19,675	\$ 50,293
2023	31,313	18,980	50,293
2024	32,023	18,270	50,293
2025	32,750	17,543	50,293
2026	33,493	16,800	50,293
2027-2031	179,217	72,251	251,468
2032-2036	200,490	50,974	251,464
2037-2041	224,293	27,442	251,735
2042-2044	121,683	3,790	125,473
	\$ 885,879	\$ 245,726	\$ 1,131,605

NOTE 5 - PENSION 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 pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098, or by calling (605) 773-3731.

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 5 - PENSION PLAN (CONTINUED)

Benefits Provided

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

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

Members hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60% joint and survivor benefit, or a 100% 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% of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the cost-of-living adjustment.

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 5 - PENSION PLAN (CONTINUED)

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Town's share of contributions to the SDRS for the calendar years ended December 31, 2021, 2020, 2019, and 2018 were \$6,075, \$5,957, \$6,391, and \$6,569 respectively, and were equal to the required contributions each year.

Pension Asset and Pension Expense

At June 30, 2021, SDRS was 105.53% funded and accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System for the Town as of the measurement period ending June 30, 2021 is as follows:

Proportionate Share of Total Pension Liability	\$ 614,280
Less: Proportionate Share of Net Position Restricted for Pension Benefits	<u>648,206</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (33,926)</u>

The net pension liability (asset) was measured as of June 30, 2021 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Town's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the Town's proportion was 0.00443000%, which is a decrease of 0.00027590% from its proportion measured as of June 30, 2020. At June 30, 2020, the Town's proportion was 0.00470590%, which is a decrease of 0.00041200% from its proportion measured as of June 30, 2019. Due to the limitations of the cash basis of accounting, the Town does not report pension (assets) liabilities or deferred amounts in its financial statements.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2021 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. This is composed of an average inflation rate of 2.25% and real returns of 4.25%
Future COLAs	2.25%

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016, white color 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, 2021 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 5 - PENSION PLAN (CONTINUED)

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed-income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (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%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	<u>2.0%</u>	0.9%
Total	<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 Changes in the Discount Rate

The following presents the Town's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, as well as what the Town'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 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Town's Proportionate Share of Net Pension Liability (Asset) 2021	\$ 54,935	\$ (33,926)	\$ (106,061)

Pension Plan Fiduciary Net Position

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

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 6 - RISK ASSESSMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2021, the Town managed risks as follows:

Unemployment Benefits

The Town has coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by State law and managed by the State of South Dakota. During the years ended December 31, 2020 and 2021, no claims were paid for unemployment benefits. At December 31, 2021, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Health Insurance

The Town does not provide a group health insurance plan for Town employees. Each employee is responsible to obtain individual health insurance.

Liability Insurance

The Town joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk-sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control, and risk reduction information and to obtain lower costs for that coverage. The Town's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Town. The Town pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under an occurrence-based policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Town pays an annual premium to the pool to provide coverage for: general liability, officials liability, automobile liability and damage, property damage, cyber liability, and law enforcement liability.

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

The Town carries a \$2,500 deductible for Governmental General Liability coverage, a \$0 deductible for Law Enforcement Liability coverage, a \$10,000 deductible for Cyber Liability coverage, and a \$5,000 deductible for Municipal Property and Officials Liability coverage.

The Town 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.

Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021

NOTE 6 - RISK ASSESSMENT (CONTINUED)

Worker's Compensation:

The Town joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Town's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Town pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The Town 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.

NOTE 7 - RESTRICTED ASSETS

The Town is obligated for customer deposits in the Water Fund in the amount of \$40,929 and \$40,629 for the years ended December 31, 2020 and 2021, respectively.

NOTE 8 - RESTRICTED NET POSITION

The following table shows restricted net position and the purpose for such restrictions as shown in the statement of net position - modified cash basis as of December 31, 2020 and 2021.

Purpose	Restricted By	2020 Amount	2021 Amount
Major Purposes:			
Debt Service	Debt Covenants	\$ 74,509	\$ 67,960
Customer Deposits	State Law	42,629	42,929
		\$ 117,138	\$ 110,889

NOTE 9 - INTERFUND TRANSFERS

Interfund transfers for the years ended December 31 were as follows:

2020		
<u>Transfer From:</u>	<u>Transfer To:</u>	
	Sanitation Fund	
General Fund	\$	25,000
2021		
<u>Transfer From:</u>	<u>Transfer To:</u>	
	Sanitation Fund	Water Fund
General Fund	\$ 25,000	\$ 50,000

All transfers were made to subsidize fund operations.

**Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021**

NOTE 10 - RELATED PARTY TRANSACTIONS

The Town does contract with board members for services on occasion. The Town limits annual payments for services to board members or their businesses to \$5,000.

NOTE 11 - LANDFILL

The Town operates a municipal solid waste transfer station and a restricted-use solid waste facility. This facility accepts very specific waste from the public. The Town has a current permit for the limited waste facility. State and EPA regulations do not require the accumulation of assets for the remediation of this type of waste facility. Refuse collected at the transfer station is taken to the Northwest South Dakota Regional Landfill (NSDRL).

NOTE 12 - LEASES

The Town has a municipal bar that is leased to a third party to operate. The lease requires monthly payments of \$500 and renews annually. The current lessee has an agreement for the operation of the bar through December 31, 2021. Future expected payments for the lease are \$6,000 during the year ended December 31, 2022.

NOTE 13 - VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

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

General Fund	Year Ended December 31, 2020
General Government:	
Legislative	\$ (21,153)
Financial Administration	(2,949)
Other	(38,775)
Public Works:	
Highways and Streets	(15,797)
Health and Welfare:	
Health	(2,816)

General Fund	Year Ended December 31, 2021
General Government:	
Financial Administration	\$ (1,774)
Public Safety:	
Protective Inspection	(1,349)
Public Works:	
Highways and Streets	(35,538)
Health and Welfare:	
Health	(1,608)
Culture and Recreation:	
Museum	(464)

The Town Board will revise budgets as activities change during the year. In addition, the implementation of a new accounting system will allow management to better monitor budgets throughout the year.

**Town of Buffalo, South Dakota
Notes to the Financial Statements
December 31, 2020 and 2021**

NOTE 14 - SUBSEQUENT EVENTS

The Town has considered subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Town of Buffalo, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
For the Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Budgetary Basis - Actual Amounts</u>	<u>Positive (Negative) Variance</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes:				
General Property Taxes	\$ 123,900	\$ 123,900	\$ 123,549	\$ (351)
General Sales and Use Taxes	94,730	94,730	204,433	109,703
Licenses and Permits	39,000	39,000	3,281	(35,719)
Intergovernmental Receipts:				
Federal Grants	-	-	62,178	62,178
State Shared Revenue	5,150	5,150	47,753	42,603
County Wheel Tax	-	-	1,188	1,188
Charges for Goods and Services:				
General Government	4,000	4,000	21,726	17,726
Fines and Forfeits:				
Court Fines and Costs	-	-	22	22
Miscellaneous Revenue:				
Investment Earnings	9,800	9,800	9,444	(356)
Rentals	-	-	1,700	1,700
Operating Agreement	<u>6,500</u>	<u>6,500</u>	<u>7,367</u>	<u>867</u>
Total Receipts	<u>283,080</u>	<u>283,080</u>	<u>482,641</u>	<u>199,561</u>

See independent auditor's report and notes to the supplementary information.

	Budgeted Amounts		Budgetary Basis - Actual Amounts	Positive (Negative) Variance
	Original	Final		
DISBURSEMENTS				
General Government:				
Legislative	11,455	11,455	32,608	(21,153)
Executive	4,545	4,545	-	4,545
Elections	1,050	1,050	-	1,050
Financial Administration	57,030	57,030	59,979	(2,949)
Other	21,450	21,450	60,225	(38,775)
Public Safety:				
Police	43,350	43,350	42,500	850
Protective Inspection	6,850	6,850	6,715	135
Public Works:				
Highways and Streets	73,900	73,900	89,697	(15,797)
Health and Welfare:				
Health	4,200	4,200	7,016	(2,816)
Culture and Recreation:				
Recreation	30,850	30,850	27,865	2,985
Parks	25,000	25,000	15,377	9,623
Museum	2,500	2,500	2,440	60
Other Miscellaneous	900	900	-	900
Total Disbursements	<u>283,080</u>	<u>283,080</u>	<u>344,422</u>	<u>(61,342)</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(25,000)	(25,000)
NET CHANGE IN FUND BALANCE	-	-	113,219	113,219
FUND BALANCE - BEGINNING	<u>859,093</u>	<u>859,093</u>	<u>859,093</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 859,093</u>	<u>\$ 859,093</u>	<u>\$ 972,312</u>	<u>\$ 113,219</u>

See independent auditor's report and notes to the supplementary information.

Town of Buffalo, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
For the Year Ended December 31, 2021

	<u>Budgeted Amounts</u>		<u>Budgetary Basis - Actual Amounts</u>	<u>Positive (Negative) Variance</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes:				
General Property Taxes	\$ 126,800	\$ 126,800	\$ 127,595	\$ 795
General Sales and Use Taxes	96,400	96,400	220,903	124,503
Licenses and Permits	40,000	40,000	1,020	(38,980)
Intergovernmental Receipts:				
State Shared Revenue	5,700	5,700	55,012	49,312
County Wheel Tax	-	-	1,188	1,188
Charges for Goods and Services:				
General Government	3,000	3,000	15,393	12,393
Fines and Forfeits:				
Court Fines and Costs	-	-	150	150
Miscellaneous Revenue:				
Investment Earnings	8,000	8,000	8,398	398
Operating Agreement	8,000	8,000	7,943	(57)
Other	-	-	3,560	3,560
Total Receipts	<u>287,900</u>	<u>287,900</u>	<u>441,162</u>	<u>153,262</u>

See independent auditor's report and notes to the supplementary information.

	Budgeted Amounts		Budgetary Basis - Actual Amounts	Positive (Negative) Variance
	Original	Final		
DISBURSEMENTS				
General Government:				
Legislative	12,900	12,900	12,873	27
Executive	9,500	9,500	-	9,500
Elections	1,050	1,050	-	1,050
Financial Administration	61,530	61,530	63,304	(1,774)
Other	32,950	32,950	24,596	8,354
Public Safety:				
Police	43,350	43,350	10,750	32,600
Protective Inspection	6,650	6,650	7,999	(1,349)
Public Works:				
Highways and Streets	58,850	58,850	94,388	(35,538)
Health and Welfare:				
Health	4,100	4,100	5,708	(1,608)
Culture and Recreation:				
Recreation	31,800	31,800	20,699	11,101
Parks	21,620	21,620	16,291	5,329
Museum	3,100	3,100	3,564	(464)
Other Miscellaneous	500	500	-	500
Total Disbursements	<u>287,900</u>	<u>287,900</u>	<u>260,172</u>	<u>27,728</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(75,000)	(75,000)
NET CHANGE IN FUND BALANCE	-	-	105,990	105,990
FUND BALANCE - BEGINNING	<u>972,312</u>	<u>972,312</u>	<u>972,312</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 972,312</u>	<u>\$ 972,312</u>	<u>\$ 1,078,302</u>	<u>\$ 105,990</u>

See independent auditor's report and notes to the supplementary information.

Town of Buffalo, South Dakota
Schedule of Net Pension Liability (Asset)
For the Years Ended December 31

*Year	Town's Proportion of the Net Pension Liability (Asset)	Town's Proportionate Share of Net Pension Liability (Asset)	Town's Covered Payroll	Town's Proportionate Share of the Net Pension Liability (Asset) as a its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
2021	0.0044300%	\$ (33,926)	\$ 100,534	33.75%	105.52%
2020	0.0047059%	(204)	101,650	0.20%	100.04%
2019	0.0051179%	(542)	108,817	0.50%	100.09%
2018	0.0050355%	(118)	154,194	0.08%	100.02%
2017	0.0052605%	(477)	114,550	0.42%	100.10%
2016	0.0066693%	22,528	151,383	14.88%	96.89%
2015	0.0082853%	(35,140)	143,350	24.51%	104.10%

*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset, which is June 30 of the previous year. Until a full 10-year trend is compiled, the Town will present information for those years for which information is available.

See independent auditor's report and notes to the supplementary information.

**Town of Buffalo, South Dakota
Schedule of Pension Contributions
For the Years Ended December 31**

Year*	Contractually- required Contribution	Contributions in Relation to the Contractually- required Contribution	Contribution Deficiency (Excess)	Town's Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	\$ 6,075	\$ 6,075	\$ -	\$ 101,255	6.0%
2020	5,957	5,957	-	99,293	6.0%
2019	6,391	6,391	-	106,521	6.0%
2018	6,569	6,569	-	109,477	6.0%
2017	5,941	5,941	-	99,017	6.0%
2016	6,873	6,873	-	114,550	6.0%
2015	9,083	9,083	-	151,383	6.0%

*Until a 10-year trend is compiled, the Town will present information for those years for which information is available.

See independent auditor's report and notes to the supplementary information.

Town of Buffalo, South Dakota
Notes to the Supplementary Information
For the Years Ended December 31, 2020 and 2021

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the modified cash basis of accounting and present capital outlay and debt service expenditures within each department rather than as separate functions similar to the Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. At the regular Board meeting in September each year, the governing Board introduces the annual appropriations ordinance for the ensuing fiscal year.
2. After adoption by the Board of Trustees, 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 Board of Trustees 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 Board of Trustees. The Town did not encumber any amounts at December 31, 2021.

NOTE 3 - PENSION CONTRIBUTIONS

Changes in Benefit Terms

The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and one plan provision change are reflected and described below.

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

Benefit Provision Changes

Legislation enacted in 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2020 and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.41%. For this June 30, 2021 Actuarial Valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

Town of Buffalo, South Dakota
Notes to the Supplementary Information
For the Years Ended December 31, 2020 and 2021

The change in the COLA assumption increased the Actuarial Accrued Liability by \$1,135 million, or 8.9% of the Actuarial Accrued Liability based on the 1.41% restricted maximum COLA.

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

Actuarial Method Changes

No changes in actuarial methods have been made since the prior valuation.

**Town of Buffalo, South Dakota
Town Officials
December 31, 2020 and 2021**

BOARD OF TRUSTEES

Traci Routier - President
Elizabeth Henderson - Vice President
Andy Forsythe
Jeremy Humbracht
Brandon Hunsucker
Shaine Odell

FINANCE OFFICER

Deb Johnson (2020-2021)
Erica Wagner (2021)

See independent auditor's report.