

**CITY OF KADOKA, SOUTH DAKOTA**

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

**DECEMBER 31, 2019**

# CITY OF KADOKA

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*Wahlenberg  
Ritzman & Co., LLC*  
*certified public accountants*

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on Financial Statements**

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Kadoka, South Dakota (the "City")**, as of and for the year ended December 31, 2019, 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 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.

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## **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.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2019, and the respective changes in its modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

## **Basis of Accounting**

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

## **Other Matters**

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements as a whole that collectively comprise the City's basic financial statements. The budgetary comparison schedule, the schedule of the City's proportionate share of net pension (asset)/liability, the schedule of City's contributions, the schedule of changes in long-term debt, and the related notes to these schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Wohlschlag Ritzman + Co., LLC*

Yankton, South Dakota  
December 10, 2020

CITY OF KADOKA

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

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-</u>	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
		<u>Activities</u>	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,200,405	\$ 614,605	\$ 1,815,010
Total assets	<u>\$ 1,200,405</u>	<u>\$ 614,605</u>	<u>\$ 1,815,010</u>
<b>NET POSITION</b>			
Restricted for:			
Economic development	\$ 101,959	\$ -	\$ 101,959
Customer deposits	-	13,157	13,157
Unrestricted	<u>1,098,446</u>	<u>601,448</u>	<u>1,699,894</u>
Total net position	<u>\$ 1,200,405</u>	<u>\$ 614,605</u>	<u>\$ 1,815,010</u>

The accompanying notes are an  
integral part of these financial statements

CITY OF KADOKA

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Program Receipts				Net (Disbursements) Receipts and Changes in Net Position		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 128,902	\$ 2,670	\$ -	\$ -	\$ (126,232)		\$ (126,232)
Public safety	89,425	366	-	-	(89,059)		(89,059)
Public works	312,975	-	49,232	-	(263,743)		(263,743)
Health and welfare	4,762	-	782	-	(3,980)		(3,980)
Culture and recreation	175,245	5,590	-	-	(169,655)		(169,655)
Conservation and development	44,291	-	-	-	(44,291)		(44,291)
Interest on long-term debt	116	-	-	-	(116)		(116)
Total governmental activities	<u>755,716</u>	<u>8,626</u>	<u>50,014</u>	<u>-</u>	<u>(697,076)</u>		<u>(697,076)</u>
Business-type activities:							
Liquor	416,075	478,716	-	-	-	62,641	62,641
Water	223,109	147,830	-	-	-	(75,279)	(75,279)
Solid waste	57,162	49,377	-	-	-	(7,785)	(7,785)
Waste water	42,102	40,779	-	-	-	(1,323)	(1,323)
Total business-type activities	<u>738,448</u>	<u>716,702</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,746)</u>	<u>(21,746)</u>
Total primary government	<u>\$ 1,494,164</u>	<u>\$ 725,328</u>	<u>\$ 50,014</u>	<u>\$ -</u>	<u>(697,076)</u>	<u>(21,746)</u>	<u>(718,822)</u>
General receipts:							
Taxes:							
Property taxes					258,262	-	258,262
Sales taxes					346,472	-	346,472
State and county shared receipts					5,537	-	5,537
Unrestricted investment earnings					12,202	5,737	17,939
Miscellaneous					67,876	-	67,876
Transfers					(17,000)	17,000	-
Total general receipts and transfers					<u>673,349</u>	<u>22,737</u>	<u>696,086</u>
Change in net position					(23,727)	991	(22,736)
Net position - beginning					<u>1,224,132</u>	<u>613,614</u>	<u>1,837,746</u>
Net position - ending					<u>\$ 1,200,405</u>	<u>\$ 614,605</u>	<u>\$ 1,815,010</u>

The accompanying notes are an integral part of these financial statements

**CITY OF KADOKA**

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

	<u>Major General Fund</u>	<u>Non-Major Lodging and Dining Tax</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,098,446	\$ 101,959	\$ 1,200,405
Total assets	<u>\$ 1,098,446</u>	<u>\$ 101,959</u>	<u>\$ 1,200,405</u>
<b>FUND BALANCES</b>			
Restricted:			
Economic development	\$ -	\$ 101,959	\$ 101,959
Unassigned	<u>1,098,446</u>	<u>-</u>	<u>1,098,446</u>
Total fund balances	<u>\$ 1,098,446</u>	<u>\$ 101,959</u>	<u>\$ 1,200,405</u>

The accompanying notes are an  
integral part of these financial statements

**CITY OF KADOKA**

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES -  
 MODIFIED CASH BASIS - GOVERNMENTAL FUNDS  
 YEAR ENDED DECEMBER 31, 2019

	Major General Fund	Non-Major Lodging and Dining Tax	Total Governmental Funds
<b>RECEIPTS</b>			
Taxes	\$ 564,020	\$ 40,714	\$ 604,734
Licenses and permits	2,670	-	2,670
Intergovernmental revenue	55,551	-	55,551
Charges for goods and services	5,590	-	5,590
Fines and fees	366	-	366
Miscellaneous	67,311	1,017	68,328
Total receipts	695,508	41,731	737,239
<b>DISBURSEMENTS</b>			
General government	104,019	-	104,019
Public safety	82,887	-	82,887
Public works	168,245	-	168,245
Health and welfare	4,762	-	4,762
Culture and recreation	174,505	-	174,505
Conservation and development	10,102	34,189	44,291
Debt service:			
Principal	10,729	-	10,729
Interest	116	-	116
Capital outlay	166,162	-	166,162
Total disbursements	721,527	34,189	755,716
Excess (deficiency) of receipts over disbursements	(26,019)	7,542	(18,477)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(17,000)	-	(17,000)
Sale of municipal property	11,750	-	11,750
Total other financing sources (uses)	(5,250)	-	(5,250)
Net change in fund balances	(31,269)	7,542	(23,727)
Fund balances - beginning	1,129,715	94,417	1,224,132
Fund balances - ending	\$ 1,098,446	\$ 101,959	\$ 1,200,405

The accompanying notes are an  
integral part of these financial statements

**CITY OF KADOKA**

STATEMENT OF NET POSITION - MODIFIED CASH BASIS -  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2019

	Enterprise Funds				Total
	Major		Nonmajor		
	Liquor	Water	Solid Waste	Waste Water	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 462,060	\$ 22,179	\$ 91,196	\$ 39,170	\$ 614,605
Total assets	<u>\$ 462,060</u>	<u>\$ 22,179</u>	<u>\$ 91,196</u>	<u>\$ 39,170</u>	<u>\$ 614,605</u>
<b>NET POSITION</b>					
Restricted	\$ -	\$ 13,157	\$ -	\$ -	\$ 13,157
Unrestricted	<u>462,060</u>	<u>9,022</u>	<u>91,196</u>	<u>39,170</u>	<u>601,448</u>
Total net position	<u>\$ 462,060</u>	<u>\$ 22,179</u>	<u>\$ 91,196</u>	<u>\$ 39,170</u>	<u>\$ 614,605</u>

The accompanying notes are an  
 integral part of these financial statements

**CITY OF KODOKA**

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS -  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2019

	Enterprise Funds				Total
	Major		Solid Waste	Nonmajor	
	Liquor	Water		Waste Water	
<b>OPERATING RECEIPTS</b>					
Charges for goods and services	\$ 447,944	\$ 147,830	\$ 49,377	\$ 40,779	\$ 685,930
Lottery sales	30,772	-	-	-	30,772
Total operating receipts	<u>478,716</u>	<u>147,830</u>	<u>49,377</u>	<u>40,779</u>	<u>716,702</u>
<b>OPERATING DISBURSEMENTS</b>					
Personal services	123,453	31,300	16,339	10,714	181,806
Cost and materials	221,949	64,700	16,009	4,665	307,323
Other current expenses	66,683	70,997	12,124	14,875	164,679
Capital outlay	3,990	56,112	8,000	11,848	79,950
Total operating disbursements	<u>416,075</u>	<u>223,109</u>	<u>52,472</u>	<u>42,102</u>	<u>733,758</u>
Operating income (loss)	<u>62,641</u>	<u>(75,279)</u>	<u>(3,095)</u>	<u>(1,323)</u>	<u>(17,056)</u>
<b>NONOPERATING RECEIPTS (DISBURSEMENTS)</b>					
Interest income	3,902	536	915	384	5,737
Debt service - principal	-	-	(4,598)	-	(4,598)
Debt service - interest	-	-	(92)	-	(92)
Total nonoperating receipts (disbursements)	<u>3,902</u>	<u>536</u>	<u>(3,775)</u>	<u>384</u>	<u>1,047</u>
Income (loss) before transfers	66,543	(74,743)	(6,870)	(939)	(16,009)
Transfer in	-	82,000	-	-	82,000
Transfer out	(65,000)	-	-	-	(65,000)
Total transfers	<u>(65,000)</u>	<u>82,000</u>	<u>-</u>	<u>-</u>	<u>17,000</u>
Change in net position	1,543	7,257	(6,870)	(939)	991
Net position - beginning	<u>460,517</u>	<u>14,922</u>	<u>98,066</u>	<u>40,109</u>	<u>613,614</u>
Net position - ending	<u>\$ 462,060</u>	<u>\$ 22,179</u>	<u>\$ 91,196</u>	<u>\$ 39,170</u>	<u>\$ 614,605</u>

The accompanying notes are an  
integral part of these financial statements

CITY OF KADOKA

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS -  
 PROPRIETARY FUNDS  
 YEAR ENDED DECEMBER 31, 2019

	Enterprise Funds				
	Major			Nonmajor	Total
	Liquor	Water	Solid Waste	Waste Water	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 478,716	\$ 147,830	\$ 49,377	\$ 40,779	\$ 716,702
Payments to suppliers	(288,632)	(135,697)	(28,133)	(19,540)	(472,002)
Payments to employees	(123,453)	(31,300)	(16,339)	(10,714)	(181,806)
Payments for capital improvements	(3,990)	(56,112)	(8,000)	(11,848)	(79,950)
Net cash provided by (used in) operating activities	<u>62,641</u>	<u>(75,279)</u>	<u>(3,095)</u>	<u>(1,323)</u>	<u>(17,056)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in	-	82,000	-	-	82,000
Transfers out	(65,000)	-	-	-	(65,000)
Net cash (used in) provided by noncapital financing activities	<u>(65,000)</u>	<u>82,000</u>	<u>-</u>	<u>-</u>	<u>17,000</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal payments on notes payable	-	-	(4,598)	-	(4,598)
Interest payments on notes payable	-	-	(92)	-	(92)
Net cash (used in) capital and related financing activities	<u>-</u>	<u>-</u>	<u>(4,690)</u>	<u>-</u>	<u>(4,690)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment income	3,902	536	915	384	5,737
Sale of certificates of deposit	<u>227,997</u>	<u>-</u>	<u>-</u>	<u>38,109</u>	<u>266,106</u>
Net cash provided by investing activities	<u>231,899</u>	<u>536</u>	<u>915</u>	<u>38,493</u>	<u>271,843</u>
Net increase (decrease) in cash and cash equivalents	229,540	7,257	(6,870)	37,170	267,097
Balances - beginning of the year	<u>232,520</u>	<u>14,922</u>	<u>98,066</u>	<u>2,000</u>	<u>347,508</u>
Balances - end of the year	<u>\$ 462,060</u>	<u>\$ 22,179</u>	<u>\$ 91,196</u>	<u>\$ 39,170</u>	<u>\$ 614,605</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>					
Operating income (loss)	<u>\$ 62,641</u>	<u>\$ (75,279)</u>	<u>\$ (3,095)</u>	<u>\$ (1,323)</u>	<u>\$ (17,056)</u>
Net cash provided by (used in) operating activities	<u>\$ 62,641</u>	<u>\$ (75,279)</u>	<u>\$ (3,095)</u>	<u>\$ (1,323)</u>	<u>\$ (17,056)</u>

The accompanying notes are an integral part of these financial statements

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### **Reporting Entity**

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

#### **Basis of Presentation**

##### *Government-wide Financial Statements:*

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

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

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Basis of Presentation, continued**

###### *Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, receipts, and disbursements. The funds of the City are organized into two major categories: governmental and proprietary.

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

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

The funds of the City are described below:

###### Governmental Funds:

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

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

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Basis of Presentation, continued**

##### *Fund Financial Statements, continued:*

##### Governmental Funds, continued:

Liquor, Lodging and Dining Gross Receipts Tax Fund - to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the City (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is (not) 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 receipts, disbursements, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

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

Waste Water Fund - Financed primarily by user charges. This fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. This is not a major fund.

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

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Basis of Presentation, continued**

###### *Fund Financial Statements, continued:*

###### Fiduciary Funds:

Fiduciary funds are never considered to be major funds and are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). The City has no fiduciary funds.

##### **Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” receipts and disbursements are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

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

###### *Measurement Focus:*

###### Government-wide Financial Statements:

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

###### Fund Financial Statements:

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

###### *Basis of Accounting:*

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

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Measurement Focus and Basis of Accounting, continued**

###### *Basis of Accounting, continued:*

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the balance sheet/statement of net position reports only cash and cash equivalents and certificates of deposit, and investments. 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.

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements include the recording of certificates of deposit arising from cash transactions. The City also presents negative cash balances rather than interfund loans.

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

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

##### **Cash and Cash Equivalents**

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

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Capital Assets**

Under the modified cash basis of accounting, capital assets are recorded when they result from cash transactions.

##### *Government-wide Financial Statements*

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired at 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 acquired for use in fund operations are accounted for as expenditures of the fund when paid for in cash.

##### **Long-Term Liabilities**

Long-term liabilities include, but are not limited to, notes payable.

As discussed above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The City has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions, so any outstanding indebtedness is not reported on the financial statements of the City. The City reports the principal and interest payments on long-term debt as Debt Service disbursements on the Statement of Cash Receipts, Disbursements, and Changes in Fund Balance - Modified Cash Basis. On the Statement of Activities, the principal portion of the Debt Service payments are reported within the appropriate expense function, while the interest portion is reported as Interest on Long-term Debt.

The City has presented, as Supplementary Information, the Schedule of Changes in Long-Term Debt along with related notes that include details of any Long-Term Debt.

##### **Revenue Received in Advance**

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

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Program Receipts**

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

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

##### **Proprietary Funds Receipts and Disbursements Classifications**

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

##### **Equity Classifications**

*Government-wide Statements:*

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

*Restricted net position* - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

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

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Equity Classifications, continued**

###### *Government-wide Statements, continued:*

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

###### *Fund Financial Statements:*

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

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

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

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

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

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

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

The City does not have a formal minimum fund balance policy. Proprietary fund equity is classified the same as in the government-wide financial statements.

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

##### **Property Taxes**

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

#### 2. DEPOSITS AND INVESTMENTS

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

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified public depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the Federal Deposit Insurance Corporation (“FDIC”) and National Credit Union Administration (“NCUA”). In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in the State of South Dakota.

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

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 2. DEPOSITS AND INVESTMENTS, continued

The City has adopted a formal investment policy which addresses the following.

**Custodial Credit Risk – Deposits** – Custodial credit risk is the risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City requires all depositories to provide full insurance or collateralization of all deposits and provide a report evidencing collateralization to the City. As of December 31, 2019, the City's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

**Investments** – As of December 31, 2019, the City had no investments.

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

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

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

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

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

**CITY OF KADOKA**

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2019

3. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2019 were as follows:

	Transfers To	Transfers From
<i>Governmental activities:</i>		
General Fund:		
Water Fund	\$ 17,000	\$ -
<i>Total governmental activities</i>	17,000	-
<i>Business-type activities:</i>		
Liquor Fund		
Water Fund	65,000	-
Water Fund		
Liquor Fund	-	82,000
<i>Total business-type activities</i>	65,000	82,000
<i>Total primary government</i>	\$ 82,000	\$ 82,000

Activity includes transfers from the General and Liquor Funds to the Water Fund for capital project funding.

4. PENSION PLAN

**Plan Information**

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

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to 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.

**CITY OF KADOKA**

**NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

4. PENSION PLAN, continued

**Benefits Provided, continued**

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

**Contributions**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2019, 2018 and 2017 was \$14,432, \$14,642, and \$14,201 respectively, equal to the required contributions each year.

**Pension (Asset)/Liability and Pension (Revenue) Expense:**

At June 30, 2018, SDRS is 100.09% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the City as of the measurement period ending June 30, 2019 and reported by the City as of December 31, 2019 are as follows:

Proportionate share of pension liability	\$1,407,369
Less proportionate share of net pension restricted for pension benefits	<u>1,408,566</u>
Proportionate share of net pension liability (asset)	<u>\$ (1,197)</u>

At December 31, 2019, the City reported an (asset)/liability of (\$1,197) for its proportionate share of the net pension (asset)/liability. The net pension (asset)/liability was measured as of June 30, 2019 and the total pension (asset)/liability used to calculate the net pension (asset)/liability was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the City's proportion was 0.01129310% which was an decrease of 0.0015777% from its proportion measured as of June 30, 2018.

## CITY OF KADOKA

### NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS DECEMBER 31, 2019

#### 4. PENSION PLAN, continued

##### **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
Investment Rate of Return	6.50% net of pension plan investment expense
Future COLAs	1.88%

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 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 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 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, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

**CITY OF KADOKA**

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2019

4. PENSION PLAN, continued

**Actuarial Assumptions, continued**

<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	<u>2.0%</u>	90.0%
Total	100%	

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	City's proportionate share of the net pension liability (asset)	\$ 198,639	\$ (1,197)

**Pension Plan Fiduciary Net Position**

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

**CITY OF KADOKA**

**NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

**5. RESTRICTED NET POSITION**

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

<u>Purpose</u>	<u>Restricted By</u>	<u>Amount</u>
Major Purposes:		
City promotion	State Law	\$ 101,959
Customer deposits held	State Law	<u>13,157</u>
		<u>\$ 115,116</u>

**6. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2019, 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.

**Property Insurance**

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

**Liability Insurance**

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

**Worker's Compensation**

The City purchases liability insurance for worker's compensation from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

**CITY OF KADOKA**

**NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS  
DECEMBER 31, 2019**

6. RISK MANAGEMENT, continued

**Unemployment Benefits**

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

7. SUBSEQUENT EVENTS

The City evaluated subsequent events and transactions that occurred after the financial statement date up to the date that the financial statements were issued.

Management is currently evaluating the impact of the COVID-19 pandemic on the City and has concluded that while it is reasonably possible that the virus could have a negative effect on the City's financial position and results of its operations, the specific impact is not readily determinable. The State of South Dakota is providing assistance by supplementing Public Safety personnel costs. Other essential City services are being maintained within prescribed guidelines to protect employees and constituency.

## SUPPLEMENTARY INFORMATION

CITY OF KADOKA

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 GENERAL FUND - PAGE 1 OF 2  
 YEAR ENDED DECEMBER 31, 2019

	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes:				
General property taxes	\$ 267,998	\$ 267,998	\$ 246,737	\$ (21,261)
General sales and use taxes	210,000	210,000	305,758	95,758
Gross receipts business taxes	7,000	7,000	10,284	3,284
Amusement taxes	150	150	72	(78)
Penalties and interest on delinquent taxes	1,100	1,100	1,169	69
Licenses and permits	2,160	2,160	2,670	510
Intergovernmental revenue:				
State grants	950	950	782	(168)
State shared revenues	56,200	56,200	52,574	(3,626)
County shared revenues	10,000	10,000	2,195	(7,805)
Charges for goods and services:				
General government	100	100	-	(100)
Culture and recreation	6,600	6,600	5,590	(1,010)
Fines and forfeits:				
Court fines and costs	100	100	366	266
Miscellaneous revenue:				
Interest earned	750	750	11,185	10,435
Rentals	58,240	58,240	56,126	(2,114)
Contributions and donations from private sources	100	100	-	(100)
Other	100	100	-	(100)
Total receipts	<u>621,548</u>	<u>621,548</u>	<u>695,508</u>	<u>73,960</u>
<b>DISBURSEMENTS</b>				
General government:				
Legislative	8,005	8,005	7,470	535
Contingency	15,000	15,000	-	-
(Amount transferred)		(15,000)		
Executive	15,110	15,110	14,879	231
Elections	450	450	28	422
Financial administration	82,422	116,112	106,525	9,587
Public safety:				
Police	67,850	67,850	65,944	1,906
Fire	23,650	23,650	23,481	169
Public works:				
Highways and streets	251,348	302,233	300,250	1,983
Airport	3,625	12,841	12,841	-
Health and welfare:				
Health	1,600	1,862	1,762	100
Ambulance	3,000	3,000	3,000	-
Culture and recreation:				
Recreation	67,950	77,950	77,768	182
Parks	23,427	23,427	15,058	8,369
Auditorium	114,466	114,466	81,074	33,392
Museums	1,540	1,540	1,345	195

See Independent Auditor's Report

CITY OF KADOKA

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
 GENERAL FUND - PAGE 2 OF 2  
 YEAR ENDED DECEMBER 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Positive (Negative)</u>
Conservation and development:				
Economic development and assistance	<u>5,000</u>	<u>10,102</u>	<u>10,102</u>	<u>-</u>
Total disbursements	<u>684,443</u>	<u>778,598</u>	<u>721,527</u>	<u>57,071</u>
Excess (deficiency) of receipts over disbursements	<u>(62,895)</u>	<u>(157,050)</u>	<u>(26,019)</u>	<u>131,031</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers out	<u>-</u>	<u>-</u>	<u>(17,000)</u>	<u>(17,000)</u>
Sale of municipal property	<u>-</u>	<u>-</u>	<u>11,750</u>	<u>11,750</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>(5,250)</u>	<u>(5,250)</u>
Net change in fund balances	<u>(62,895)</u>	<u>(157,050)</u>	<u>(31,269)</u>	<u>125,781</u>
Fund balances - beginning	<u>1,129,715</u>	<u>1,129,715</u>	<u>1,129,715</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,066,820</u>	<u>\$ 972,665</u>	<u>\$ 1,098,446</u>	<u>\$ 125,781</u>

See Independent Auditor's Report

## CITY OF KADOKA

### NOTES TO SUPPLEMENTARY INFORMATION - BUDGETS DECEMBER 31, 2019

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

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

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

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

The financial statements prepared within the context of the modified cash basis of accounting present debt service and capital outlay expenditures information in a separate category of expenditures. Under the budgetary basis of accounting, debt service and capital outlay expenditures are reported within the function to which they relate.

**CITY OF KADOKA**

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

South Dakota Retirement System

Last 10 Years \*

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

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

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

See Independent Auditor's Report

**CITY OF KADOKA**

SCHEDULE OF CONTRIBUTIONS

**South Dakota Retirement System**

Last 10 Years \*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 13,277	\$ 12,976	\$ 13,157	\$ 14,201	\$ 14,642
Contributions in relation to the contractually required contribution	<u>\$ 13,277</u>	<u>\$ 12,976</u>	<u>\$ 13,157</u>	<u>\$ 14,201</u>	<u>\$ 14,642</u>
Contribution deficiency (excess)	<u>\$ -</u>				
City's covered-employee payroll	\$ 209,549	\$ 204,305	\$ 206,967	\$ 224,001	\$ 230,959
Contributions as a percentage of covered-employee payroll	6.34%	6.35%	6.36%	6.34%	6.34%

2019

Contractually required contribution	\$ 14,432
Contributions in relation to the contractually required contribution	<u>\$ 14,432</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 227,259
Contributions as a percentage of covered-employee payroll	6.35%

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

See Independent Auditor's Report

## **CITY OF KADOKA**

### **NOTES TO SUPPLEMENTARY INFORMATION - PENSION DECEMBER 31, 2019**

#### **Changes of Benefit Terms**

There were 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.

**CITY OF KADOKA**

**SCHEDULE OF CHANGES IN LONG-TERM DEBT  
YEAR ENDED DECEMBER 31, 2019**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Capital acquisition lease	\$ 10,729	\$ -	\$ (10,729)	\$ -
Total governmental activities	<u>10,729</u>	<u>-</u>	<u>(10,729)</u>	<u>-</u>
Business-type activities:				
Capital acquisition lease	4,598	-	(4,598)	-
Total business-type activities	<u>4,598</u>	<u>-</u>	<u>(4,598)</u>	<u>-</u>
Total	<u>\$ 15,327</u>	<u>\$ -</u>	<u>\$ (15,327)</u>	<u>\$ -</u>

During the year ended December 31, 2019, the City fully retired, by the General Fund (Highways and Streets) and the Water Fund, the capital acquisition lease for the purchase of a Caterpillar loader.

See Independent Auditor's Report

*Wahlenberg  
Ritzman & Co., LLC*  
*certified public accountants*

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kadoka, South Dakota (the "City"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 10, 2020.

**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.

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Member of: Private Companies Practice Section American Institute of CPAs, South Dakota Society of CPAs



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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Wohlberg Ritzman + Co., LLC*

Yankton, South Dakota  
December 10, 2020

**CITY OF KADOKA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2019**

**PRIOR AUDIT FINDINGS**

There were no prior financial statement audit findings reported.

**CITY OF KADOKA**

**SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
DECEMBER 31, 2019**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

There are no financial statement audit findings reported.