

Municipality of Kimball

**Independent Auditor's Report
and Financial Statements**

**For the Years Ended
December 31, 2020 and 2019**

Municipality of Kimball

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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***

To the Council Members
Municipality of Kimball, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities and each major fund of the Municipality of Kimball, South Dakota, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Municipality’s basic financial statements and have issued our report thereon dated March 4, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality’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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality’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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

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

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 Municipality'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.

A handwritten signature in black ink that reads "CIO of LLC". The signature is written in a cursive, slightly slanted style.

Mitchell, South Dakota
March 4, 2022



Independent Auditor's Report

To the Council Members
Municipality of Kimball, South Dakota

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Kimball, South Dakota, as of December 31, 2020 and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's 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.c.; 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 responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 Municipality'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 Municipality'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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, the business-type activities, and each major fund of the Municipality of Kimball as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years ended December 31, 2020 and 2019 in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

We draw attention to Note 1.c. 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 opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedule, Schedule of Changes in Long-term Debt, and Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset) 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 basic 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 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 March 4, 2022 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is 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 Municipality'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 Municipality's internal control over financial reporting and compliance.



Mitchell, South Dakota

March 4, 2022

Municipality of Kimball
Statement of Net Position – Modified Cash Basis
For the Year December 31, 2020 and December 31, 2019

| | December 31, 2020 | | |
|---------------------------|---|--|---------------------|
| | Primary Government | | |
| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| Assets | | | |
| Cash and cash equivalents | \$ 1,330,180 | \$ 115,706 | \$ 1,445,886 |
| Total Assets | <u>\$ 1,330,180</u> | <u>\$ 115,706</u> | <u>\$ 1,445,886</u> |
| Net Position | | | |
| Unrestricted | \$ 1,330,180 | \$ 115,706 | \$ 1,445,886 |
| Total Net Position | <u>\$ 1,330,180</u> | <u>\$ 115,706</u> | <u>\$ 1,445,886</u> |

| | December 31, 2019 | | |
|---------------------------|---|--|---------------------|
| | Primary Government | | |
| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| Assets | | | |
| Cash and cash equivalents | \$ 1,295,956 | \$ 117,833 | \$ 1,413,789 |
| Total Assets | <u>\$ 1,295,956</u> | <u>\$ 117,833</u> | <u>\$ 1,413,789</u> |
| Net Position | | | |
| Restricted for: | | | |
| Capital outlay | \$ 103,138 | \$ -- | \$ 103,138 |
| Unrestricted | 1,192,818 | 117,833 | 1,310,651 |
| Total Net Position | <u>\$ 1,295,956</u> | <u>\$ 117,833</u> | <u>\$ 1,413,789</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Kimball
Statement of Activities – Modified Cash Basis
For the Year December 31, 2020

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--------------------------------------|---------------------|-------------------------|--|--|--|-----------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Primary Government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General government | \$ 243,073 | \$ 68,634 | \$ -- | \$ 47,162 | \$ (127,277) | \$ -- | \$ (127,277) |
| Public safety | 94,749 | -- | -- | -- | (94,749) | -- | (94,749) |
| Public works | 331,793 | 54,280 | -- | -- | (277,513) | -- | (277,513) |
| Health and welfare | 16,126 | -- | -- | -- | (16,126) | -- | (16,126) |
| Culture and recreation | 123,144 | 9,608 | -- | -- | (113,536) | -- | (113,536) |
| Conservation and development | 77,221 | -- | -- | -- | (77,221) | -- | (77,221) |
| Total Governmental Activities | <u>886,106</u> | <u>132,522</u> | <u>--</u> | <u>47,162</u> | <u>(706,422)</u> | <u>--</u> | <u>(706,422)</u> |
| Business-type Activities: | | | | | | | |
| Water | 161,348 | 162,254 | -- | -- | -- | 906 | 906 |
| Sewer | 112,763 | 109,378 | -- | -- | -- | (3,385) | (3,385) |
| Total Business-Type Activities | <u>274,111</u> | <u>271,632</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>(2,479)</u> | <u>(2,479)</u> |
| Total Primary Government | <u>\$ 1,160,217</u> | <u>\$ 404,154</u> | <u>\$ --</u> | <u>\$ 47,162</u> | <u>(706,422)</u> | <u>(2,479)</u> | <u>(708,901)</u> |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property tax | | | | | 192,752 | -- | 192,752 |
| Sales tax | | | | | 477,773 | -- | 477,773 |
| State shared revenues | | | | | 9,832 | -- | 9,832 |
| Unrestricted investment earnings | | | | | 4,077 | 352 | 4,429 |
| Miscellaneous revenue | | | | | 56,212 | -- | 56,212 |
| Total General Revenues and Transfers | | | | | <u>740,646</u> | <u>352</u> | <u>740,998</u> |
| Change in Net Position | | | | | 34,224 | (2,127) | 32,097 |
| Net Position-Beginning of Year | | | | | <u>1,295,956</u> | <u>117,833</u> | <u>1,413,789</u> |
| Net Position-End of Year | | | | | <u>\$ 1,330,180</u> | <u>\$ 115,706</u> | <u>\$ 1,445,886</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Kimball
Statement of Activities – Modified Cash Basis
For the Year December 31, 2019

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|---------------------|-------------------------|--|--|--|-----------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-Type Activities | |
| Primary Government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General government | \$ 129,276 | \$ 68,030 | \$ 5,582 | \$ -- | \$ (55,664) | \$ -- | \$ (55,664) |
| Public safety | 67,459 | -- | -- | -- | (67,459) | -- | (67,459) |
| Public works | 229,660 | 58,770 | -- | -- | (170,890) | -- | (170,890) |
| Health and welfare | 12,524 | -- | -- | -- | (12,524) | -- | (12,524) |
| Culture and recreation | 124,896 | 4,264 | -- | -- | (120,632) | -- | (120,632) |
| Conservation and development | 72,008 | -- | -- | -- | (72,008) | -- | (72,008) |
| Debt service | -- | -- | -- | -- | -- | -- | -- |
| Total Governmental Activities | <u>635,823</u> | <u>131,064</u> | <u>5,582</u> | <u>--</u> | <u>(499,177)</u> | <u>--</u> | <u>(499,177)</u> |
| Business-type Activities: | | | | | | | |
| Water | 205,312 | 121,939 | -- | -- | -- | (83,373) | (83,373) |
| Sewer | 290,720 | 111,983 | -- | -- | -- | (178,737) | (178,737) |
| Total Business-Type Activities | <u>496,032</u> | <u>233,922</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>(262,110)</u> | <u>(262,110)</u> |
| Total Primary Government | <u>\$ 1,131,855</u> | <u>\$ 364,986</u> | <u>\$ 5,582</u> | <u>\$ --</u> | <u>(499,177)</u> | <u>(262,110)</u> | <u>(761,287)</u> |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property tax | | | | | 187,529 | -- | 187,529 |
| Sales tax | | | | | 370,661 | -- | 370,661 |
| State shared revenues | | | | | 9,523 | -- | 9,523 |
| Unrestricted investment earnings | | | | | 6,141 | 623 | 6,764 |
| Contributions and donations from private sources | | | | | -- | -- | -- |
| Transfers | | | | | (217,300) | 217,300 | -- |
| Miscellaneous revenue | | | | | 48,644 | -- | 48,644 |
| Total general Revenues and Transfers | | | | | <u>405,198</u> | <u>217,923</u> | <u>623,121</u> |
| Change in Net Position | | | | | (93,979) | (44,187) | (138,166) |
| Net Position-Beginning of Year | | | | | <u>1,389,935</u> | <u>162,020</u> | <u>1,551,955</u> |
| Net Position-End of Year | | | | | <u>\$ 1,295,956</u> | <u>\$ 117,833</u> | <u>\$ 1,413,789</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Kimball
Balance Sheet – Modified Cash Basis
Governmental Funds
December 31, 2020 and 2019

| | December 31, 2020 | | |
|---------------------------|-------------------|--------------------------------|--------------------------------|
| | General Fund | Other Governmental Funds | Total Governmental Funds |
| | Assets | | |
| Cash and cash equivalents | \$ 1,212,870 | \$ 117,310 | \$ 1,330,180 |
| Total Assets | \$ 1,212,870 | \$ 117,310 | \$ 1,330,180 |
| Fund Balances | | | |
| Unassigned | \$ 1,212,870 | \$ 117,310 | \$ 1,330,180 |
| Total Fund Balances | \$ 1,212,870 | \$ 117,310 | \$ 1,330,180 |

| | December 31, 2019 | | |
|---------------------------|-------------------|--------------------------------|--------------------------------|
| | General Fund | Other Governmental Funds | Total Governmental Funds |
| | Assets | | |
| Cash and cash equivalents | \$ 1,192,818 | \$ 103,138 | \$ 1,295,956 |
| Total Assets | \$ 1,192,818 | \$ 103,138 | \$ 1,295,956 |
| Fund Balances | | | |
| Restricted for: | | | |
| Capital outlay | \$ -- | \$ 103,138 | \$ 103,138 |
| Unassigned | 1,192,818 | -- | 1,192,818 |
| Total Fund Balances | \$ 1,192,818 | \$ 103,138 | \$ 1,295,956 |

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Kimball
Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis
Governmental Funds
For the Year December 31, 2020

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|
| Revenues: | | | |
| Taxes: | | | |
| General property taxes | \$ 192,752 | \$ -- | \$ 192,752 |
| General sales and use taxes | 458,595 | 19,094 | 477,689 |
| Amusement taxes | 84 | -- | 84 |
| Licenses and permits | 7,956 | -- | 7,956 |
| Intergovernmental: | | | |
| State Grants | 47,162 | -- | 47,162 |
| Bank franchise tax | 1,945 | -- | 1,945 |
| Motor vehicle commercial prorated | 3,021 | -- | 3,021 |
| Liquor tax reversion | 4,866 | -- | 4,866 |
| Motor vehicle licenses | 16,089 | -- | 16,089 |
| Local government highway and bridge fund | 35,786 | -- | 35,786 |
| County wheel tax | 2,405 | -- | 2,405 |
| Charges for goods and services | 9,608 | -- | 9,608 |
| Miscellaneous revenue: | | | |
| Investment earnings | 3,719 | 358 | 4,077 |
| Rentals | 60,678 | -- | 60,678 |
| Other | 56,212 | -- | 56,212 |
| Total Revenue | <u>900,878</u> | <u>19,452</u> | <u>920,330</u> |
| Expenditures: | | | |
| Current: | | | |
| General government: | | | |
| Legislative | 36,524 | -- | 36,524 |
| Financial administration | 79,925 | -- | 79,925 |
| Other | 126,624 | -- | 126,624 |
| Public safety: | | | |
| Police | 80,612 | -- | 80,612 |
| Fire | 14,137 | -- | 14,137 |
| Public works: | | | |
| Highways and streets | 325,403 | -- | 325,403 |
| Sanitation | 5,258 | -- | 5,258 |
| Airport | 1,132 | -- | 1,132 |
| Health and welfare: | | | |
| Health | 7,601 | -- | 7,601 |
| Ambulance | 2,340 | -- | 2,340 |
| Other | 6,185 | -- | 6,185 |
| Culture and recreation | | | |
| Recreation | 84,332 | -- | 84,332 |
| Libraries | 38,812 | -- | 38,812 |
| Conservation and development: | | | |
| Economic development and assistance (industrial development) | 71,941 | 5,280 | 77,221 |
| Total Expenditures | <u>880,826</u> | <u>5,280</u> | <u>886,106</u> |
| Excess of Revenues Over Expenditures | <u>20,052</u> | <u>14,172</u> | <u>34,224</u> |
| Net Change in Fund Balance | 20,052 | 14,172 | 34,224 |
| Fund Balance - Beginning of Year | <u>1,192,818</u> | <u>103,138</u> | <u>1,295,956</u> |
| Fund Balance - End of Year | <u>\$ 1,212,870</u> | <u>\$ 117,310</u> | <u>\$ 1,330,180</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Kimball
Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis
Governmental Funds
For the Year December 31, 2019

| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|---|
| Revenues: | | | |
| Taxes: | | | |
| General property taxes | \$ 187,529 | \$ -- | \$ 187,529 |
| General sales and use taxes | 350,262 | 20,315 | 370,577 |
| Amusement taxes | 84 | -- | 84 |
| Licenses and permits | 8,972 | -- | 8,972 |
| Intergovernmental: | | | |
| State Grants | 5,582 | -- | 5,582 |
| Bank franchise tax | 1,968 | -- | 1,968 |
| Motor vehicle commercial prorata | 2,973 | -- | 2,973 |
| Liquor tax reversion | 4,582 | -- | 4,582 |
| Motor vehicle licenses | 19,320 | -- | 19,320 |
| Local government highway and bridge fund | 35,411 | -- | 35,411 |
| County road tax (25%) | 1,451 | -- | 1,451 |
| County wheel tax | 2,588 | -- | 2,588 |
| Charges for goods and services | 4,264 | -- | 4,264 |
| Miscellaneous revenue: | | | |
| Investment earnings | 5,760 | 381 | 6,141 |
| Rentals | 59,058 | -- | 59,058 |
| Other | 48,644 | -- | 48,644 |
| Total Revenue | <u>738,448</u> | <u>20,696</u> | <u>759,144</u> |
| Expenditures: | | | |
| Current: | | | |
| General government: | | | |
| Legislative | 52,529 | -- | 52,529 |
| Financial administration | 76,747 | -- | 76,747 |
| Other | -- | -- | -- |
| Public safety: | | | |
| Police | 52,261 | -- | 52,261 |
| Fire | 15,198 | -- | 15,198 |
| Public works: | | | |
| Highways and streets | 224,262 | -- | 224,262 |
| Sanitation | 1,730 | -- | 1,730 |
| Airport | 3,668 | -- | 3,668 |
| Health and welfare: | | | |
| Health | 4,169 | -- | 4,169 |
| Ambulance | 2,245 | -- | 2,245 |
| Other | 6,110 | -- | 6,110 |
| Culture and recreation | | | |
| Recreation | 87,916 | -- | 87,916 |
| Libraries | 36,980 | -- | 36,980 |
| Conservation and development: | | | |
| Economic development and assistance (industrial development) | 71,556 | 452 | 72,008 |
| Total Expenditures | <u>635,371</u> | <u>452</u> | <u>635,823</u> |
| Excess of Revenues Over Expenditures | <u>103,077</u> | <u>20,244</u> | <u>123,321</u> |
| Other Financing Sources (Uses): | | | |
| Transfers out | (217,300) | -- | (217,300) |
| Total Other Financing Sources (Uses) | <u>(217,300)</u> | <u>--</u> | <u>(217,300)</u> |
| Net Change in Fund Balance | (114,223) | 20,244 | (93,979) |
| Fund Balance - Beginning of Year | <u>1,307,041</u> | <u>82,894</u> | <u>1,389,935</u> |
| Fund Balance - End of Year | <u>\$ 1,192,818</u> | <u>\$ 103,138</u> | <u>\$ 1,295,956</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Kimball
Statement of Net Position – Modified Cash Basis
Proprietary Funds
December 31, 2020 and 2019

| | December 31, 2020 | | |
|---------------------------|-------------------|------------|------------|
| | Water Fund | Sewer Fund | Totals |
| Assets | | | |
| Cash and cash equivalents | \$ 15,191 | \$ 100,515 | \$ 115,706 |
| Total Assets | \$ 15,191 | \$ 100,515 | \$ 115,706 |
| Net Position | | | |
| Unrestricted | \$ 15,191 | \$ 100,515 | \$ 115,706 |
| Total Net Position | \$ 15,191 | \$ 100,515 | \$ 115,706 |
| | | | |
| | December 31, 2019 | | |
| | Water Fund | Sewer Fund | Totals |
| Assets | | | |
| Cash and cash equivalents | \$ (34,774) | \$ 152,607 | \$ 117,833 |
| Total Assets | \$ (34,774) | \$ 152,607 | \$ 117,833 |
| Net Position | | | |
| Unrestricted | (34,774) | 152,607 | 117,833 |
| Total Net Position | \$ (34,774) | \$ 152,607 | \$ 117,833 |

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Kimball
Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2020

| | December 31, 2020 | | |
|--|-------------------|-------------------|-------------------|
| | Water Fund | Sewer Fund | Totals |
| Operating Revenues: | | | |
| Charges for goods and services | \$ 133,494 | \$ 109,378 | \$ 242,872 |
| Other | 28,760 | -- | 28,760 |
| Total Operating Revenues | <u>162,254</u> | <u>109,378</u> | <u>271,632</u> |
| Operating Expenses: | | | |
| Personal services | 35,908 | 34,330 | 70,238 |
| Other current expense | 23,809 | 50,172 | 73,981 |
| Supplies & materials | 55,560 | 118 | 55,678 |
| Total Operating Expenses | <u>115,277</u> | <u>84,620</u> | <u>199,897</u> |
| Operating Income | <u>46,977</u> | <u>24,758</u> | <u>71,735</u> |
| Nonoperating Revenues (Expenses): | | | |
| Investment income | 46 | 306 | 352 |
| Capital Assets | (20,812) | (20,812) | (41,624) |
| Debt service | (9,093) | (2,638) | (11,731) |
| Interest expense | (16,166) | (4,693) | (20,859) |
| Total Nonoperating Revenue (Expense) | <u>(46,025)</u> | <u>(27,837)</u> | <u>(73,862)</u> |
| Net Income (Loss) Before Transfers | 952 | (3,079) | (2,127) |
| Transfers in | 49,013 | -- | 49,013 |
| Transfers out | -- | (49,013) | (49,013) |
| | <u>49,013</u> | <u>(49,013)</u> | <u>--</u> |
| Change in Net Position | 49,965 | (52,092) | (2,127) |
| Net Position - Beginning of Year | <u>(34,774)</u> | <u>152,607</u> | <u>117,833</u> |
| Net Position - End of Year | <u>\$ 15,191</u> | <u>\$ 100,515</u> | <u>\$ 115,706</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Kimball
Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2019

| | December 31, 2019 | | |
|--|--------------------|-------------------|-------------------|
| | Water Fund | Sewer Fund | Totals |
| Operating Revenues: | | | |
| Charges for goods and services | \$ 121,253 | \$ 111,983 | \$ 233,236 |
| Other | 686 | -- | 686 |
| Total Operating Revenues | <u>121,939</u> | <u>111,983</u> | <u>233,922</u> |
| Operating Expenses: | | | |
| Personal services | 3,864 | 10,171 | 14,035 |
| Other current expense | 29,924 | 53,644 | 83,568 |
| Supplies & materials | 45,425 | 118 | 45,543 |
| Total Operating Expenses | <u>79,213</u> | <u>63,933</u> | <u>143,146</u> |
| Operating Income (Loss) | <u>42,726</u> | <u>48,050</u> | <u>90,776</u> |
| Nonoperating Revenues (Expenses): | | | |
| Investment income | 44 | 579 | 623 |
| Capital Assets | (49,571) | (560) | (50,131) |
| Debt service | (59,750) | (220,266) | (280,016) |
| Interest expense | (16,778) | (5,961) | (22,739) |
| Total Nonoperating Revenue (Expense) | <u>(126,055)</u> | <u>(226,208)</u> | <u>(352,263)</u> |
| Net (Loss) Before Transfers | (83,329) | (178,158) | (261,487) |
| Transfers in | <u>--</u> | <u>217,300</u> | <u>217,300</u> |
| Change in Net Position | (83,329) | 39,142 | (44,187) |
| Net Position - Beginning of Year | <u>48,555</u> | <u>113,465</u> | <u>162,020</u> |
| Net Position - End of Year | <u>\$ (34,774)</u> | <u>\$ 152,607</u> | <u>\$ 117,833</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Kimball
Statement of Cash Flows – Modified Cash Basis
Proprietary Funds
December 31, 2020

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|--|-------------------|-------------------|-------------------|
| Cash Flows from Operating Activities: | | | |
| Receipt from customers | \$ 162,254 | \$ 109,378 | \$ 271,632 |
| Payments to suppliers | (79,369) | (50,290) | (129,659) |
| Payments to employees | (35,908) | (34,330) | (70,238) |
| Net Cash Provided by Operating Activities | <u>46,977</u> | <u>24,758</u> | <u>71,735</u> |
| Cash Flows from Noncapital Financing Activities: | | | |
| Transfers In | 49,013 | -- | 49,013 |
| Transfers Out | -- | (49,013) | (49,013) |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>49,013</u> | <u>(49,013)</u> | <u>--</u> |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Purchase of Capital Assets | (20,812) | (20,812) | (41,624) |
| Principal Paid on Capital Debt | (9,093) | (2,638) | (11,731) |
| Interest Paid on Capital Debt | (16,166) | (4,693) | (20,859) |
| Net Cash (Used) by Capital and Related Financing Activities | <u>(46,071)</u> | <u>(28,143)</u> | <u>(74,214)</u> |
| Cash Flows from Investing Activities: | | | |
| Interest earnings | 46 | 306 | 352 |
| Net Cash Provided by Investing Activities | <u>46</u> | <u>306</u> | <u>352</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 49,965 | (52,092) | (2,127) |
| Cash and Cash Equivalents - Beginning of Year | <u>(34,774)</u> | <u>152,607</u> | <u>117,833</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 15,191</u> | <u>\$ 100,515</u> | <u>\$ 115,706</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | |
| Operating Income | \$ 46,977 | \$ 24,758 | \$ 71,735 |
| Net Cash Provided by Operating Activities | <u>\$ 46,977</u> | <u>\$ 24,758</u> | <u>\$ 71,735</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

Municipality of Kimball
Statement of Cash Flows – Modified Cash Basis
Proprietary Funds
December 31, 2019

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|--|--------------------|-------------------|-------------------|
| Cash Flows from Operating Activities: | | | |
| Receipt from customers | \$ 121,939 | \$ 111,983 | \$ 233,922 |
| Payments to suppliers | (75,349) | (53,762) | (129,111) |
| Payments to employees | (3,864) | (10,171) | (14,035) |
| | <u>42,726</u> | <u>48,050</u> | <u>90,776</u> |
| Net Cash Provided by Operating Activities | | | |
| Cash Flows from Noncapital Financing Activities: | | | |
| Transfers In | -- | 217,300 | 217,300 |
| Net Cash Provided by Noncapital Financing Activities | <u>--</u> | <u>217,300</u> | <u>217,300</u> |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Purchase of Capital Assets | (49,571) | (560) | (50,131) |
| Principal Paid on Capital Debt | (59,750) | (220,266) | (280,016) |
| Interest Paid on Capital Debt | (16,778) | (5,961) | (22,739) |
| | <u>(126,099)</u> | <u>(226,787)</u> | <u>(352,886)</u> |
| Net Cash (Used) by Capital and Related Financing Activities | | | |
| Cash Flows from Investing Activities: | | | |
| Interest earnings | 44 | 579 | 623 |
| Net Cash Provided by Investing Activities | <u>44</u> | <u>579</u> | <u>623</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (83,329) | 39,142 | (44,187) |
| Cash and Cash Equivalents - Beginning of Year | <u>48,555</u> | <u>113,465</u> | <u>162,020</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ (34,774)</u> | <u>\$ 152,607</u> | <u>\$ 117,833</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | |
| Operating Income | \$ 42,726 | \$ 48,050 | \$ 90,776 |
| Net Cash Provided by Operating Activities | <u>\$ 42,726</u> | <u>\$ 48,050</u> | <u>\$ 90,776</u> |

The accompanying notes to financial statements are an integral part of this statement.

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies:

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

a. Financial Reporting Municipality:

The reporting entity of the Municipality of Kimball, (Municipality) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal Municipality, 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 Municipality); 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 Municipality's financial statements to be misleading or incomplete.

The Municipality participates in a cooperative unit with Tri County Landfill Association, Inc. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting Municipality as a component unit but are discussed in these notes because of the nature of their relationship with the Municipality.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statements of Net Position and Statements of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies: (Continued)

Fund Financial Statements:

Fund financial statements of the reporting Municipality are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Municipality's financial reporting Municipality are described below:

Governmental Funds:

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

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Liquor, Lodging, and Dining Gross Receipts Tax Fund – to account for 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 municipality (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.

Sales Tax Fund – to account for expenditures of capital improvements. This is not a major fund.

Proprietary Funds:

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

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies: (Continued)

1. The activity is financed with debt that is secured solely by pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
2. Laws or regulations require that the activity’s costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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 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 is a major fund.

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 Municipality’s basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, 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 Statements of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

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.

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies: (Continued)

Basis of Accounting:

In the government-wide Statement of Net Position and Statements of Activities and the fund financial statements, governmental and business-type activities are presented using a 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 statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) 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. An acceptable modification to the cash basis of accounting implemented by the Municipality in these financial statements is:

Recording long-term investments (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

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 Municipality applied USGAAP, 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. Deposits and Investments:

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

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. The accounting treatment for property, plant and equipment (capital assets) is the same whether the assets are used in governmental fund operations or proprietary fund or whether they are reported in the government-wide or fund financial statements.

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies: (Continued)

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 Municipality has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating those assets where appropriate, so any capital assets owned by the Municipality and the related depreciation are not reported on the financial statements.

f. Long-Term Liabilities:

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

As discussed in Note 1.c. above the government-wide Statement of Net Position and Statements of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The Municipality 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 Municipality. The Municipality 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 Statements of Activities, the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The Municipality has presented as Supplemental Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

g. Program Revenues:

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

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

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statements of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies: (Continued)

i. Cash and Cash Equivalents:

The Municipality 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 Statements of Cash Flows.

j. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in two components:

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.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Restricted," "Committed," "Assigned" and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

k. Application of Net Position:

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

l. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Municipality classifies governmental fund balances as follows:

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

1. Summary of Significant Accounting Policies: (Continued)

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund Balance may be assigned by the governing body or Finance Officer.

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

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

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

2. Deposits and Investments Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk:

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

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

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

As of December 31, 2020, the Municipality did not have any investments.

Credit Risk – State law limits eligible investments for the Municipality, as discussed above. The Municipality has no investment policy that would further limit its investment choices.

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

2. Deposits and Investments Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk: (Continued)

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

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

Interest Rate Risk – The Municipality does not have a formal investment policy that limits investment securities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

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

4. Long-Term Debt:

A summary of changes in long-term debt can be found on page 35.

Debt payable at December 31, 2020 is comprised of the following:

| Notes Payable or Other Long-Term Debt | 2020 |
|---|------------|
| Rural Development Debt: | |
| Sewer and Water Utility Revenue Bond, Series 2015 | \$ 589,602 |
| Use of proceeds: sewer/water improvements project | |
| Interest rate: 3.5% fixed | |
| Maturity date: 2055 (anticipated) | |
| Fund servicing debt: sewer and water | |
| | \$ 589,602 |

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

4. Long-Term Debt: (Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2020, including interest, are as follows:

| Years Ending Dec. 31, | Total | |
|--------------------------|------------|------------|
| | Principal | Interest |
| 2021 | \$ 12,150 | \$ 23,442 |
| 2022 | 12,582 | 23,010 |
| 2023 | 13,029 | 22,563 |
| 2024 | 13,493 | 22,099 |
| 2025 | 13,972 | 21,620 |
| 2026-2030 | 77,679 | 85,281 |
| 2031-2035 | 92,511 | 70,449 |
| 2036-2040 | 110,177 | 52,783 |
| 2041-2045 | 131,214 | 31,746 |
| 2046-2049 | 112,795 | 17,876 |
| Total | \$ 589,602 | \$ 370,869 |

5. Pension Plan:

Plan Information:

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

Benefits Provided:

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

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

5. Pension Plan: (Continued)

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

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

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

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

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

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

5. Pension Plan: (Continued)

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and participating employers are established and may be amended by the SDRS board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2020, 2019, and 2018 were \$12,342, \$10,076, and \$9,868, respectively, equal to the required contributions each year.

Pension (Asset):

At June 30, 2020, SDRS is 100.04% funded and accordingly has a net pension (asset.) The proportionate share of the components of the net pension (asset) of South Dakota Retirement System, for the Municipality as of this measurement period ending June 30, 2020 and reported by the Municipality as of December 31, 2020 are as follows:

| | |
|--|------------------------|
| | 2020 |
| Proportionate share of pension liability | \$ 1,021,732 |
| Less proportionate share of net pension restricted for pension benefits | <u>(1,022,093)</u> |
| Proportionate share of net pension liability (asset) | <u><u>\$ (361)</u></u> |

The net pension (asset) was measured as of June 30, 2020 and the total pension (asset) used to calculate the net pension (asset) was based upon a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the Municipality's proportion was .00831150%, which is an increase of .0004842 from its proportion measured as of June 30, 2019.

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|------------------|---|
| Inflation | 2.25 percent |
| Salary Increases | 6.50% at entry to 3.00% after 25 years of service |
| Discount Rate | 6.50% net of plan investment expense |
| Future COLAs | 1.41% |

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 and projected generationally with Scale MP-2016.

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

5. Pension Plan: (Continued)

The actuarial assumptions used in the June 30, 2020 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 percentages 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, 2020 (see the discussion of the investment 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% | 5.1% |
| Fixed Income | 30.0% | 1.5% |
| Real Estate | 10.0% | 6.2% |
| Cash | 2.0% | 1.0% |
| Total | <u>100.0%</u> | |

Discount Rate:

The discount rate used to measure the total pension liability was 6.5%. 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.

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

5. Pension Plan: (Continued)

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

The following presents the Municipality's proportionate share of net pension (asset) calculated using the discount rate of 6.50%, as well as what the Municipality'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:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|-------------|--------------------------|--------------|
| Municipality's proportionate share of the net pension liability (asset) | \$ 140,031 | \$ (360) | \$ (115,199) |

Pension Plan Fiduciary Net Position:

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

6. Joint Ventures:

The Municipality is served by a regional landfill operated as a separate legal Municipality. There are eight counties and 20 towns that have a joint powers agreement for the joint operation of the landfill. Although the Municipality has a joint powers agreement with Tri County Landfill Association, Inc. The Municipality provides no funding and receives no revenues from the landfill. The agreement states that the obligations of the landfill shall never constitute an indebtedness of the members within the meaning of any state constitutional provision or statutory limitation and shall never give rise to a pecuniary liability of the members or a charge against their respective general credit or taxing power and the taxing powers of the members may not be used to pay any loan, and no funds or property of the members, other than those described herein, may be used to pay loan payments. The agreement also states that any assets remaining upon dissolution of the landfill shall be distributed to each member based upon the proportion of assets put into the joint operation at its creation by each Municipality. Separate financial statements for this joint venture are available from Tri County Landfill Association, Inc., 24978 349th Avenue, Pukwana, SD 57370.

7. Risk Management:

The Municipality 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, 2020, the Municipality managed its risks as follows:

Employee Health Insurance:

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

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

7. Risk Management: (Continued)

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials, with the exception of the Fire Department which is insured in a separate policy as a separate named Municipality, from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workers' Compensation:

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

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

Unemployment Benefits:

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

8. Interfund Transfers:

For the year ended December 31, 2020:

| | | |
|--|----|---------------|
| From the Sewer Fund to the Water fund for operations | \$ | 49,013 |
| Total transfers | \$ | <u>49,013</u> |

For the year ended December 31, 2019:

| | | |
|--|----|----------------|
| From the General Fund to the Sewer fund for operations | \$ | 217,300 |
| Total transfers | \$ | <u>217,300</u> |

Municipality of Kimball
Notes to the Modified Cash Basis Financial Statements
December 31, 2020 and 2019

9. Risks and Uncertainties:

As a result of the spread of the SARS-COV-2 virus, the incidence of COVID-19, and the world-wide coronavirus pandemic economic uncertainties have arisen which may negatively affect the financial position, results of operations, and cash flows of the Municipality. The Municipality is closely monitoring its operations, liquidity, and capital resources and is working to minimize the current and future impact of this unprecedented situation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Supplemental Information

Municipality of Kimball
 Budgetary Comparison Schedule – Modified Cash Basis
 General Fund
 December 31, 2020

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Resources (Inflows): | | | | |
| Taxes: | | | | |
| General property tax | \$ 200,928 | \$ 200,928 | \$ 192,752 | \$ (8,176) |
| General sales and use tax | 375,000 | 375,000 | 458,595 | 83,595 |
| Amusement Tax | -- | -- | 84 | 84 |
| Total Taxes | <u>575,928</u> | <u>575,928</u> | <u>651,431</u> | <u>75,503</u> |
| Licenses and permits | 8,000 | 8,000 | 7,956 | (44) |
| Intergovernmental | 60,000 | 60,000 | 111,274 | 51,274 |
| Charges for goods and services | 5,000 | 5,000 | 9,608 | 4,608 |
| Fines and Forfeits | 50 | 50 | -- | (50) |
| Investment Earnings | 4,500 | 4,500 | 3,719 | (781) |
| Miscellaneous revenues | 70,500 | 70,500 | 116,890 | 46,390 |
| Amounts Available for Appropriation | <u>723,978</u> | <u>723,978</u> | <u>900,878</u> | <u>176,900</u> |
| Charges to Appropriations (Outflows): | | | | |
| General Government | <u>368,685</u> | <u>357,986</u> | <u>243,073</u> | <u>114,913</u> |
| Public Safety: | | | | |
| Police | 60,305 | 89,448 | 80,612 | 8,836 |
| Fire | 19,100 | 19,100 | 14,137 | 4,963 |
| Total Public Safety | <u>79,405</u> | <u>108,548</u> | <u>94,749</u> | <u>13,799</u> |
| Public Works: | | | | |
| Street Department | 273,740 | 380,528 | 325,403 | 55,125 |
| Sanitation | 7,760 | 7,760 | 5,258 | 2,502 |
| Airport | 2,400 | 2,400 | 1,132 | 1,268 |
| Total Public Works | <u>283,900</u> | <u>390,688</u> | <u>331,793</u> | <u>58,895</u> |
| Health and Welfare | 21,370 | 22,892 | 16,126 | 6,766 |
| Culture and Recreation | 167,450 | 167,450 | 123,144 | 44,306 |
| Conservation and Development | 65,940 | 65,940 | 71,941 | (6,001) |
| Total Expenditures | <u>986,750</u> | <u>1,113,504</u> | <u>880,826</u> | <u>232,678</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(262,772)</u> | <u>(389,526)</u> | <u>20,052</u> | <u>409,578</u> |
| Beginning Budgetary Fund Balance | <u>1,192,818</u> | <u>1,192,818</u> | <u>1,192,818</u> | <u>--</u> |
| Ending Budgetary Fund Balance | <u>\$ 930,046</u> | <u>\$ 803,292</u> | <u>\$ 1,212,870</u> | <u>\$ 409,578</u> |

See accompanying Note to Budgetary Comparison Schedules.

Municipality of Kimball
 Budgetary Comparison Schedule – Modified Cash Basis
 General Fund
 December 31, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|---------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Resources (Inflows): | | | | |
| Taxes: | | | | |
| General property tax | \$ 192,924 | \$ 192,924 | \$ 187,529 | \$ (5,395) |
| General sales and use tax | 350,000 | 350,000 | 350,262 | 262 |
| Amusement Tax | -- | -- | 84 | 84 |
| Total Taxes | <u>542,924</u> | <u>542,924</u> | <u>537,875</u> | <u>(5,049)</u> |
| Licenses and permits | 8,000 | 8,000 | 8,972 | 972 |
| Intergovernmental | 60,000 | 60,000 | 73,875 | 13,875 |
| Charges for goods and services | 5,000 | 5,000 | 4,264 | (736) |
| Fines and Forfeits | 50 | 50 | -- | (50) |
| Investment income | 4,500 | 4,500 | 5,760 | 1,260 |
| Miscellaneous revenues | 66,500 | 66,500 | 107,702 | 41,202 |
| Amounts Available for Appropriation | <u>686,974</u> | <u>686,974</u> | <u>738,448</u> | <u>51,474</u> |
| Charges to Appropriations (Outflows): | | | | |
| General Government | <u>350,935</u> | <u>344,200</u> | <u>129,276</u> | <u>214,924</u> |
| Public Safety: | | | | |
| Police | 58,805 | 58,805 | 52,261 | 6,544 |
| Fire | 16,550 | 16,550 | 15,198 | 1,352 |
| Total Public Safety | <u>75,355</u> | <u>75,355</u> | <u>67,459</u> | <u>7,896</u> |
| Public Works: | | | | |
| Street Department | 264,140 | 264,140 | 224,262 | 39,878 |
| Sanitation | 7,760 | 7,760 | 1,730 | 6,030 |
| Airport | 2,400 | 2,400 | 3,668 | (1,268) |
| Total Public Works | <u>274,300</u> | <u>274,300</u> | <u>229,660</u> | <u>44,640</u> |
| Health and Welfare | 21,070 | 21,070 | 12,524 | 8,546 |
| Culture and Recreation | 140,110 | 148,610 | 124,896 | 23,714 |
| Conservation and Development | 71,250 | 71,250 | 71,556 | (306) |
| Debt Service | -- | -- | -- | -- |
| Total Expenditures | <u>933,020</u> | <u>934,785</u> | <u>635,371</u> | <u>299,414</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(246,046)</u> | <u>(247,811)</u> | <u>103,077</u> | <u>350,888</u> |
| Other Financing Sources | | | | |
| Transfers out | -- | -- | (217,300) | (217,300) |
| Net Change in Fund Balance | (246,046) | (247,811) | (114,223) | 133,588 |
| Beginning Budgetary Fund Balance | <u>1,307,041</u> | <u>1,307,041</u> | <u>1,307,041</u> | <u>--</u> |
| Ending Budgetary Fund Balance | <u>\$ 1,060,995</u> | <u>\$ 1,059,230</u> | <u>\$ 1,192,818</u> | <u>\$ 133,588</u> |

See accompanying Note to Budgetary Comparison Schedules.

Municipality of Kimball
Notes to Budgetary Comparison Schedules
December 31, 2020 and 2019

Note 1: Budgets and Budgetary Accounting:

The Municipality 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 ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, 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 percent of the total municipal budget and may be transferred by resolution of the Governing Board 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 Governing Board.

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

The Municipality did not encumber any amounts at December 31, 2020 or 2019.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. The Municipality of Kimball presents its budget on the modified cash basis of accounting to coincide with the basis of accounting utilized by the basic financial statements. See Note 1 to the basic financial statements for a definition of modified cash basis.

Municipality of Kimball
Schedule of Changes in Long-Term Debt
December 31, 2020 and 2019

| Indebtedness | December 31, 2020 | | | |
|----------------------------|----------------------------------|-------------------------|------------------------------|------------------------------------|
| | Long-Term Debt 1/1/20 | Add New Debt | Less Debt Retired | Long-Term Debt 12/31/20 |
| Enterprise Long-Term Debt: | | | | |
| Revenue bonds | \$ 601,335 | \$ -- | \$ 11,733 | \$ 589,602 |
| Total Long-Term Debt: | \$ 601,335 | \$ -- | \$ 11,733 | \$ 589,602 |

| Indebtedness | December 31, 2019 | | | |
|----------------------------|----------------------------------|-------------------------|------------------------------|------------------------------------|
| | Long-Term Debt 1/1/19 | Add New Debt | Less Debt Retired | Long-Term Debt 12/31/19 |
| Enterprise Long-Term Debt: | | | | |
| Revenue bonds | \$ 881,351 | \$ -- | \$ 280,016 | \$ 601,335 |
| Total Long-Term Debt: | \$ 881,351 | \$ -- | \$ 280,016 | \$ 601,335 |

Municipality of Kimball
Schedule of Proportionate Share of the Net Pension Liability (Asset)

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Municipality's proportion of the net pension liability (asset) | 0.008312% | 0.007827% | 0.008020% | 0.008006% | 0.007164% | 0.007033% |
| Municipality's proportionate share of net pension liability (asset) | <u>\$ (361)</u> | <u>\$ (829)</u> | <u>(187)</u> | <u>(727)</u> | <u>24,199</u> | <u>(29,829)</u> |
| Municipality's covered payroll | <u>\$ 172,631</u> | <u>\$ 155,729</u> | <u>\$ 155,756</u> | <u>\$ 152,608</u> | <u>\$ 130,420</u> | <u>\$ 117,884</u> |
| Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 0.21% | 0.53% | 0.12% | 0.48% | 18.55% | 25.30% |
| Plan fiduciary net position as a percentage of the total pension liability (asset) | 100.04% | 100.09% | 100.02% | 100.10% | 96.89% | 104.10% |

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30. Until a full 10-year trend is complied, the Municipality will present information for those years for which information is available.

See accompanying Note to Schedule of Proportionate Share of the Net Pension Liability (Asset).

Municipality of Kimball
Notes to Schedule of Proportionate Share of the Net Pension Liability (Asset)
December 31, 2020

Changes from Prior Valuation

The June 30, 2020 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

Benefit Provision Changes

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020 and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if Members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

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 0.5% 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, 2019 and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019 and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% 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 anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

Actuarial Method Changes

No changes in actuarial methods were made since the prior valuation.