

**CITY OF MARTIN**  
**Martin, South Dakota**

**FINANCIAL REPORT**

**For the Year Ended December 31, 2019**

**CITY OF MARTIN**  
**Martin, South Dakota**

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**CITY OF MARTIN**  
**Martin, South Dakota**

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Gardner, Loutzenhiser, and Ryan, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' 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 Governing Board  
City of Martin, 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 City of Martin, South Dakota, 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 August 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.

*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 City'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. We did identify certain deficiencies in internal control, described as items 2019-01 and 2019-02 in the accompanying Schedule of Current Year Audit Findings, that we consider to be significant deficiencies.

**Compliance and Other Matters**

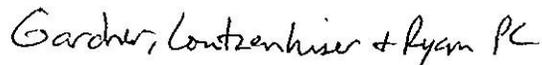
As part of obtaining reasonable assurance about whether the City of Martin's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

**City's Response to Findings**

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

**Purpose of this Report**

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



Chadron, Nebraska  
August 10, 2020

**CITY OF MARTIN**  
**Martin, South Dakota**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS**

**For the Year Ended December 31, 2019**

**Prior Year Audit Findings:**

2018-01 - Lack of Segregation of Duties - Restated as item 2019-01 in the current year audit findings.

2018-02 - Preparation of Financial Statements - Restated as item 2019-02 in the current year audit findings.

**Current Year Audit Findings:**

2019-01 - Lack of Segregation of Duties

Condition: The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure adequate internal control.

Criteria: Authorization or approval of transactions, recording of transactions, and custody of assets should normally be segregated from each other.

Effect of the Condition: This lack of segregation of duties results in an inadequate overall internal control structure design.

Cause of the Condition: The City does not employ sufficient office personnel to properly segregate accounting functions.

Recommendation: The City should be aware of the inherent risks associated with improper segregation of accounting functions. The City should also develop mitigating controls to reduce the risk of errors or fraud associated with improper segregation of accounting functions.

Auditee Response: The City has assessed the benefits and costs associated with the proper segregation of duties and has determined the costs would outweigh any benefits received. The City understands the inherent risks associated with improper segregation of accounting functions.

2019-02 - Preparation of Financial Statements

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes. This situation is not unusual in an organization the size of the City of Martin.

Criteria: *Government Auditing Standards* indicate that the inability to produce financial statements is an internal control deficiency.

Effect of the Condition: The auditor was requested to prepare the financial statements.

**CITY OF MARTIN**  
**Martin, South Dakota**

**SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS (CONTINUED)**

**For the Year Ended December 31, 2019**

2019-02 - Preparation of Financial Statements (Continued)

Cause of the Condition:      The City does not find it cost effective to incur the cost to provide for the preparation of the financial statements.

Recommendation:            The City should provide appropriate oversight of the preparation of the financial statements.

Auditee Response:            Management accepts this risk because of the cost of implementing an internal control system which would provide for the preparation of the financial statements being audited.



Gardner, Loutzenhiser, and Ryan, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT**

To the Governing Board  
City of Martin, South Dakota

### **Report on the Financial Statements**

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities and each major fund of the City of Martin, South Dakota 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 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 misstatements, whether due to fraud or error.

### **Auditors' 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 auditors' 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 City'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 City'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, and each major fund of the City of Martin, South Dakota, as of December 31, 2019, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

**Basis of Accounting**

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

**Other Matters**

*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 City's basic financial statements. The supplementary information on pages 30 - 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

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

*Gardner, Lutzehuiser + Ryan PC*

Chadron, Nebraska  
August 10, 2020

**CITY OF MARTIN**  
**Martin, South Dakota**

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**

**December 31, 2019**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in pooled cash	\$ 436,483	\$ 667,943	\$ 1,104,426
Cash and cash equivalents	487,809	354,298	842,107
Restricted cash and cash equivalents	193,504	85,909	279,413
Certificates of deposit	3,340	25,000	28,340
<b>Total assets</b>	<b>\$ 1,121,136</b>	<b>\$ 1,133,150</b>	<b>\$ 2,254,286</b>
<b>Net position</b>			
<b>Restricted</b>			
Debt service	\$ -	\$ 41,160	\$ 41,160
Hodson Park	24,103	-	24,103
Crime stoppers	2,500	-	2,500
City improvements	166,901	44,749	211,650
<b>Unrestricted</b>	<b>927,632</b>	<b>1,047,241</b>	<b>1,974,873</b>
<b>Total net position</b>	<b>\$ 1,121,136</b>	<b>\$ 1,133,150</b>	<b>\$ 2,254,286</b>

See accompanying independent auditors' report  
and notes to the financial statements.

**CITY OF MARTIN**  
**Martin, South Dakota**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For the Year Ended December 31, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental activities:							
General Government	\$ 141,778	\$ 33,114	\$ 10,647	\$ -	\$ (98,017)	\$ -	\$ (98,017)
Public Safety	323,375	10	-	-	(323,365)	-	(323,365)
Public Works	404,059	21,078	147,491	-	(235,490)	-	(235,490)
Culture and Recreation	185,570	10,602	-	-	(174,968)	-	(174,968)
Conservation and Development	12,620	-	-	-	(12,620)	-	(12,620)
Total governmental activities	\$ 1,067,402	\$ 64,804	\$ 158,138	\$ -	\$ (844,460)	\$ -	\$ (844,460)
Business-type activities:							
Water	\$ 758,539	\$ 314,244	\$ -	\$ -	\$ -	\$ (444,295)	\$ (444,295)
Sewer	115,068	123,383	-	-	-	8,315	8,315
Sanitation	114,056	92,047	-	-	-	(22,009)	(22,009)
Total business-type activities	\$ 987,663	\$ 529,674	\$ -	\$ -	\$ -	\$ (457,989)	\$ (457,989)
Total primary government	\$ 2,055,065	\$ 594,478	\$ 158,138	\$ -	\$ (844,460)	\$ (457,989)	\$ (1,302,449)

See accompanying independent auditors' report  
and notes to the financial statements.

**CITY OF MARTIN**  
**Martin, South Dakota**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS (CONTINUED)**

**For the Year Ended December 31, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Total primary government from prior page	\$ 2,055,065	\$ 594,478	\$ 158,138	\$ -	\$ (844,460)	\$ (457,989)	\$ (1,302,449)
General Revenues:							
Taxes:							
Property Taxes				\$ 181,543	\$ -	\$ -	\$ 181,543
Sales Taxes				514,338	-	-	514,338
Intergovernmental revenue not restricted to specific programs				16,031	-	-	16,031
Proceeds from long-term debt				-	440,525	-	440,525
Unrestricted investment earnings				2,890	1,125	-	4,015
Miscellaneous revenues				167,350	32,381	-	199,731
Transfers - Internal activities				1,000	(1,000)	-	-
Total general revenues and transfers				\$ 883,152	\$ 473,031	\$ -	\$ 1,356,183
Change in net position				\$ 38,692	\$ 15,042	\$ -	\$ 53,734
Net position, beginning of year				680,756	1,519,796	-	2,200,552
Reclassification of Liquor Operating Agreements Fund				401,688	(401,688)	-	-
Net position, end of year				\$ 1,121,136	\$ 1,133,150	\$ -	\$ 2,254,286

See accompanying independent auditors' report  
and notes to the financial statements.

**CITY OF MARTIN**  
**Martin, South Dakota**

**BALANCE SHEET - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**

**December 31, 2019**

	Major Funds		Total Governmental Funds
	General	BBB Tax	
<b>Assets</b>			
Equity in pooled cash	\$ 436,483	\$ -	\$ 436,483
Cash and cash equivalents	487,809	-	487,809
Restricted cash and cash equivalents	162,474	31,030	193,504
Certificates of deposit	3,340	-	3,340
<b>Total assets</b>	<b>\$ 1,090,106</b>	<b>\$ 31,030</b>	<b>\$ 1,121,136</b>
<b>Fund balances</b>			
Restricted for			
Hodson park	\$ 24,103	\$ -	\$ 24,103
Crime stoppers	2,500	-	2,500
City improvements	135,871	31,030	166,901
Assigned for			
Swimming pool	2,340	-	2,340
Fireworks	488	-	488
Capital street improvements	486,563	-	486,563
Unassigned	438,241	-	438,241
<b>Fund balances</b>	<b>\$ 1,090,106</b>	<b>\$ 31,030</b>	<b>\$ 1,121,136</b>

See accompanying independent auditors' report  
and notes to the financial statements.

**CITY OF MARTIN**  
**Martin, South Dakota**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS**

**For the Year Ended December 31, 2019**

	Major Funds		Total Governmental Funds
	General	BBB Tax	
Revenues			
Taxes	\$ 648,718	\$ 47,163	\$ 695,881
Licenses and permits	27,878	-	27,878
Intergovernmental revenues	173,754	-	173,754
Special assessments	415	-	415
Charges for services	36,926	-	36,926
Miscellaneous revenues	170,150	90	170,240
Total revenues	\$ 1,057,841	\$ 47,253	\$ 1,105,094
Expenditures			
Current			
General government	\$ 135,644	\$ -	\$ 135,644
Public safety	306,393	-	306,393
Public works	378,127	-	378,127
Culture and recreation	127,670	-	127,670
Conservation and development	-	12,620	12,620
Capital outlay	91,016	-	91,016
Debt service - principal	14,732	-	14,732
Debt service - interest	1,200	-	1,200
Total expenditures	\$ 1,054,782	\$ 12,620	\$ 1,067,402
Excess (deficiency) of revenues over (under) expenditures	\$ 3,059	\$ 34,633	\$ 37,692
Other financing sources (uses)			
Operating transfers from other funds	\$ 175,000	\$ -	\$ 175,000
Operating transfers to other funds	(134,000)	(40,000)	(174,000)
Total other financing sources (uses)	\$ 41,000	\$ (40,000)	\$ 1,000
Net change in fund balances	\$ 44,059	\$ (5,367)	\$ 38,692
Fund balances, beginning of year	644,359	36,397	680,756
Reclassification of Liquor Operating Agreements Fund	401,688	-	401,688
Fund balances, end of year	\$ 1,090,106	\$ 31,030	\$ 1,121,136

See accompanying independent auditors' report  
and notes to the financial statements.

**CITY OF MARTIN**  
**Martin, South Dakota**

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**

**December 31, 2019**

	Major Funds			Total Proprietary Funds
	Water	Sewer	Sanitation	
Assets				
Equity in pooled cash	\$ 370,146	\$ 288,212	\$ 9,585	\$ 667,943
Cash and cash equivalents	221,537	114,166	18,595	354,298
Restricted cash in bank	44,749	41,160	-	85,909
Certificates of deposit	25,000	-	-	25,000
Total assets	\$ 661,432	\$ 443,538	\$ 28,180	\$ 1,133,150
Net position				
Restricted for:				
Debt service	\$ -	\$ 41,160	\$ -	\$ 41,160
City improvements	44,749	-	-	44,749
Unrestricted	616,683	402,378	28,180	1,047,241
Total net position	\$ 661,432	\$ 443,538	\$ 28,180	\$ 1,133,150

See accompanying independent auditors' report  
and notes to the financial statements.

**CITY OF MARTIN**  
**Martin, South Dakota**

**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**

**For the Year Ended December 31, 2019**

	Major Funds			Total Proprietary Funds
	Water	Sewer	Sanitation	
Operating revenues				
Charges for services	\$ 314,244	\$ 123,383	\$ 92,047	\$ 529,674
Miscellaneous	12,037	8,395	11,949	32,381
Total operating revenues	\$ 326,281	\$ 131,778	\$ 103,996	\$ 562,055
Operating expenses				
Personal services	\$ 78,237	\$ 58,087	\$ 8,150	\$ 144,474
Utilities	31,099	1,049	607	32,755
Other current expenses	39,458	11,085	10,377	60,920
Materials (cost of goods sold)	36,653	11,755	94,922	143,330
Total operating expenses	\$ 185,447	\$ 81,976	\$ 114,056	\$ 381,479
Operating income (loss)	\$ 140,834	\$ 49,802	\$ (10,060)	\$ 180,576
Nonoperating revenues (expenses)				
Interest income	\$ 813	\$ 312	\$ -	\$ 1,125
Proceeds from long-term debt	440,525	-	-	440,525
Capital outlay	(524,317)	(8,400)	-	(532,717)
Debt service principal	(33,695)	(16,865)	-	(50,560)
Debt service interest	(15,080)	(7,827)	-	(22,907)
Total nonoperating revenues (expenses)	\$ (131,754)	\$ (32,780)	\$ -	\$ (164,534)
Net income (loss) before capital contributions and operating transfers	\$ 9,080	\$ 17,022	\$ (10,060)	\$ 16,042
Operating transfers from other funds	42,000	-	15,000	57,000
Operating transfers to other funds	(58,000)	-	-	(58,000)
Net income (loss)	\$ (6,920)	\$ 17,022	\$ 4,940	\$ 15,042
Total net position, beginning of year	668,352	426,516	23,240	1,118,108
Total net position, end of year	\$ 661,432	\$ 443,538	\$ 28,180	\$ 1,133,150

See accompanying independent auditors' report  
and notes to the financial statements.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Financial Reporting Entity** - The reporting entity of the City of Martin, South Dakota (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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent upon the City. The City has no component units that meet the criteria for inclusion in the financial statements.

**Basis of Presentation**

*Government-wide Financial Statements*

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

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

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

**NOTE 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, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 10 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 City financial reporting entity are described below:

**Governmental Funds**

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

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments for major capital improvements) that are legally restricted to expenditures for specified purposes. The City has the following special revenue fund:

**Bed, Booze and Breakfast (BBB) Tax Fund** - The BBB tax fund is used 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 of advertising of the City (SDCL 10-52A-2). The BBB tax fund is considered to be a major fund.

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds

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

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity.
- a. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- b. 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 - The water fund is financed primarily by user charges and accounts for the construction and operation of the City waterworks system and related facilities. This is a major fund.

Sewer Fund - The sewer fund is financed primarily by user charges and accounts for the construction and operation of the sanitary sewer system and related facilities. This is a major fund.

Sanitation Fund - The sanitation fund is financed primarily by user charges and accounts for the operations of sanitation collections. This is a major fund.

Measurement Focus and Basis of Accounting

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

The City'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.

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 on the subsequent page.

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.

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus and Basis of Accounting (Continued)**

**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 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 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 City in these financial statements is:

- a. Recording long-term certificates of deposit (those with maturities greater than 90 days 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 City applied United States generally accepted accounting principles, 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.

**Deposits and Investments**

For the purpose of financial reporting, "cash and cash equivalents" include 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 classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

**Capital Assets**

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs. Therefore, they are not shown as assets in either the fund financial or the government-wide financial statements.

**Long-Term Liabilities**

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate.

Long-term debts arising from cash transactions are not reported as liabilities in either the fund financial or the government-wide financial statements.

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Revenues

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

- a. 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.
- b. 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.
- c. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in 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.

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 do not meet the definition of "restricted".

Fund Financial Statements

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

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

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance Classification Policies and Procedures**

Fund balances for each of the City's governmental funds are displayed in the following classifications in accordance with Government Accounting Standards Board (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, depicting the relative strength of the spending constraints placed on the purpose for which resources can be used:

- a. *Nonspendable fund balance* - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- b. *Restricted fund balance* - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government) or imposed by constitutional provisions or enabling legislation.
- c. *Committed fund balance* - amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority and does not lapse at year end.
- d. *Assigned fund balance* - amounts the government intends to use for specific purposes that do not meet the criteria to be restricted or committed. Fund balance may be assigned by City council and the finance officer.
- e. *Unassigned fund balance* - amounts that are available for any purpose; these amounts include positive fund balance within the General Fund which has not been classified within the above categories and negative fund balances in other governmental funds.

The City 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 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.

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
BBB Tax Fund	BBB Tax Revenue

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements:

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund services - Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
2. Interfund reimbursements - Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
3. Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-Wide Financial Statements:

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers - Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the City requires management to make estimates and assumptions that may affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

**NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK**

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns in a cash pool available for use of all funds. Each fund's portion of this pool is displayed on the Statement of Net Position as "equity in pooled cash." Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2 and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 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 City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Deposits for the City at December 31, 2019, consisted of the following:

Equity in pooled cash	\$ 1,104,426
Cash in bank	1,121,520
Certificates of deposit	<u>28,340</u>
Total	\$ <u><u>2,254,286</u></u>

Cash is allocated to the following funds:

General Fund	\$ 1,090,106
Special Revenue Fund	31,030
Proprietary Funds	<u>1,133,150</u>
Total	\$ <u><u>2,254,286</u></u>

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

**NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (CONTINUED)**

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the city's deposits may not be returned to them. The City does not have a policy for custodial credit risk. For reporting purposes, the amount of total City bank deposits is classified in the following categories of custodial credit risk.

1. Insured or collateralized with securities held by the City or by its agent in the City's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
3. Uninsured and uncollateralized, or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name.

A detail of deposits at December 31, 2019, is as follows:

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Custody Credit Risk Category</u>			<u>Total Carrying Value</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Insured deposits	\$ 250,000	\$ 250,000	\$ -	\$ -	
Uninsured deposits:					
Collateralized	2,017,880	-	2,017,880	-	
Uncollateralized	-	-	-	-	
<b>Total deposits</b>	<b>\$ 2,267,880</b>	<b>\$ 250,000</b>	<b>\$ 2,017,880</b>	<b>\$ -</b>	<b>\$ 2,254,286</b>

Credit Risk - State law limits eligible investments for the City, as discussed on the previous page. The City has no investment policy that would further limit its investment choices.

Deposits are reported at cost, plus interest, if the account is of the add-on type. The City's only investments are certificates of deposit.

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

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

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

**NOTE 3 - RESTRICTED CASH AND INVESTMENTS**

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

<u>Amount</u>	<u>Purpose</u>
\$ 211,650	For city improvements, by grantor
24,103	For maintenance and improvement of Hodson Park, by donor
2,500	For use by police for crime protection rewards
41,160	For sewer debt service, by lender

**NOTE 4 - PROPERTY TAXES**

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

**NOTE 5 - COMMITMENTS**

Commitments at December 31, 2019, are comprised of the following:

Water Improvements - The City signed a financing agreement for a water improvements project with the state Drinking Water Revolving loan in the amount of \$920,000. Quarterly payments of \$10,889, including interest at a rate of 2.5%, began January 15, 2006. In July 2007, a refund of excess funds was made on the loan changing the quarterly payment amount to \$10,866 with the final maturity in October 2035. The payments will be made from water service charges in the water fund.

Sewer Improvements - The City signed three separate financing agreements for a sewer lagoon stabilization project with USDA Rural Development in the total amount of \$416,000. Monthly payments of \$1,531, including interest at a rate of 3.0%, began in November 2012. The final maturity is August, 2050. The payments are made by the sewer fund

Caterpillar Loader - On January 11, 2017, the City signed a financing agreement for a Caterpillar loader with Security First Bank in the amount of \$118,225. In anticipation of the note, the City paid \$12,000 on the note in December 2016 which was applied to the note on January 12, 2017. Quarterly payments of \$5,311, including interest at a rate of 2.5%, began March 1, 2017. The final maturity is December, 2022. The payments are made out of the streets fund, street development fund and snow removal fund all in the general fund and the water and sewer funds.

Water Improvements #2 - The City signed a financing agreement for a water improvements project with the state Drinking Water Revolving Loan in the amount of \$440,525. A one-time principal payment of \$35,000, including interest at a rate of 2.0% is due on January 15, 2020. Quarterly payments \$4,502, including interest at a rate of 2.0%, will begin April 15, 2020. The final maturity is January 2050. The payments will be made from water service user surcharge fees in the water fund.

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

**NOTE 5 – COMMITMENTS (CONTINUED)**

The following is a summary of the long-term debt transactions for the year ended December 31, 2019:

	<u>Balance</u> <u>12/31/18</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31/19</u>	<u>Due within</u> <u>one year</u>
<b>Bonds</b>					
Water Improvements	\$ 600,442	\$ -	\$ 28,721	\$ 571,721	\$ 29,446
Sewer Improvements	170,517	-	3,367	167,150	3,469
Sewer Improvements	378	-	378	-	-
Sewer Improvements	101,590	-	13,120	88,470	2,906
Water Improvements #2	-	440,525	-	440,525	42,461
<b>Total Bonds</b>	<b>\$ 872,927</b>	<b>\$ 440,525</b>	<b>\$ 45,586</b>	<b>\$ 1,267,866</b>	<b>\$ 78,282</b>
<b>Notes from direct borrowings</b>					
Caterpillar Loader	\$ 67,976	\$ -	\$ 19,706	\$ 48,270	\$ 20,222
<b>Total commitments</b>	<b>\$ 940,903</b>	<b>\$ 440,525</b>	<b>\$ 65,292</b>	<b>\$ 1,316,136</b>	<b>\$ 98,504</b>

The annual requirements to amortize all commitments outstanding as of December 31, 2019, are as follows:

<u>Year ending December 31,</u>	<u>Bonds</u>		<u>Notes from Direct Borrowings</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 78,282	\$ 31,563	\$ 20,222	\$ 1,020
2021	46,880	28,549	20,734	509
2022	48,046	27,383	7,314	46
2023	49,241	26,188	-	-
2024	50,466	24,963	-	-
2025-2029	271,820	105,325	-	-
2030-2034	307,443	69,702	-	-
2035-2039	165,559	37,728	-	-
2040-2044	120,609	21,977	-	-
2045-2049	124,044	8,179	-	-
2050-2054	5,476	25	-	-
<b>Total</b>	<b>\$ 1,267,866</b>	<b>\$ 381,582</b>	<b>\$ 48,270</b>	<b>\$ 1,575</b>

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the Year Ended December 31, 2019**

**NOTE 6 - RESTRICTED NET POSITION**

Restricted Net Position for the year ended December 31, 2019, was as follows:

	Governmental Funds	Proprietary Funds	Total
By Donor	\$ 24,103	\$ -	\$ 24,103
By Grantor	169,401	44,749	214,150
By Creditor	-	41,160	41,160
	\$ 193,504	\$ 85,909	\$ 279,413

**NOTE 7 - INTERFUND TRANSFERS**

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

	Transfers To:				
Transfers From:	General Fund	General (Markota) Fund	Water Fund	Sanitation Fund	Totals
Major Funds:					
General Fund	\$ -	\$ 77,000	\$ 42,000	\$ 15,000	\$ 134,000
BBB Tax Fund	20,000	20,000	-	-	40,000
Water Fund	58,000	-	-	-	58,000
Totals	\$ 78,000	\$ 97,000	\$ 42,000	\$ 15,000	\$ 232,000

The City typically transfers excess General Fund revenues from liquor operating agreements to other City funds and excess proprietary fund revenues to the General Fund to conduct the indispensable functions of the City. In addition, the City transfers from the BBB Tax Fund to the General Fund for community improvement projects and swimming pool building costs.

**NOTE 8 - RETIREMENT PLAN**

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

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the year ended December 31, 2019**

**NOTE 8 - RETIREMENT 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 retirements 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 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 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than 3.5%
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, 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.

**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, were \$26,326, \$25,023 and \$26,046, respectively, equal to the required contributions each year.

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the year ended December 31, 2019**

**NOTE 9 - 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 municipality managed its risks as follows:

**Employee Health Insurance:**

The City joined the South Dakota Municipal League Health Pool. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage also includes a \$2,000,000 lifetime maximum payment per person. The City does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**Liability Insurance:**

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

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

<u>Years</u>	<u>Percentage</u>
1	55%
2	50%
3	40%
4	35%
5	30%
6+	20%

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the year ended December 31, 2019**

**NOTE 9 - RISK MANAGEMENT (CONTINUED)**

**Liability Insurance (Continued):**

All refunds shall be paid to the withdrawing Member over a five-year term.

The amount available for refund to the City is considered a deposit for financial reporting purposes.

As of December 31, 2019, the City's balance available to be refunded per the SDPAA was \$23,468, which was an increase of \$576 from the previous year. The City's balance available to be refunded has not been reflected in the individual fund or government-wide financial statements as they are on the modified cash basis of accounting.

The City carries a \$500 deductible for the comprehensive coverage and a \$500 deductible for the collision coverage.

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

**Workmen's Compensation:**

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local governmental entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide worker's compensation coverage for its employees, under a self-funded program, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability of \$2,000,000 per incident. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

**Unemployment Benefits:**

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ended December 31, 2019, no unemployment benefits were paid.

**NOTE 10 - PRIOR PERIOD ADJUSTMENT**

The City reclassified the liquor operating agreement's fund reporting from the Enterprise Funds to the General Fund. Beginning fund balance was increased in the General Fund and decreased in the Enterprise Funds by \$401,688, which was the balance of the liquor operating agreement's cash balance at January 1, 2019.

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the year ended December 31, 2019**

**NOTE 11 - SUBSEQUENT EVENTS**

The City's operations may be affected by the recent and ongoing outbreak of the coronavirus disease (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain and may result in a material adverse impact on the City's assets, liabilities, fund balance, cash receipts and cash disbursements. Possible effects may include, delays in the collection of property tax receipts and a reduction in sales tax collections and other user charges. At this point, the effects cannot be reasonably estimated due to the unknown duration and severity of this pandemic.

Subsequent events have been evaluated through August 10, 2020, the date on which the financial statements were available to be issued.

See accompanying independent auditors' report.

**CITY OF MARTIN**  
**Martin, South Dakota**

**SUPPLEMENTARY INFORMATION**

**CITY OF MARTIN**  
**Martin, South Dakota**

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**GENERAL FUND**

**For the Year Ended December 31, 2019**

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes				
General property taxes	\$ 172,855	\$ 172,855	\$ 181,543	\$ 8,688
General sales and use taxes	370,000	383,000	466,887	83,887
Other taxes	240	240	288	48
Licenses and permits	26,100	26,100	27,878	1,778
Intergovernmental revenues				
Federal payments in lieu of taxes	3,900	3,900	10,647	6,747
State shared revenues	15,000	15,000	16,031	1,031
County shared revenues	25,200	25,200	49,666	24,466
Grants	150,000	150,000	97,410	(52,590)
Special assessments	-	-	415	415
Charges for services	51,050	51,050	36,926	(14,124)
Miscellaneous revenues	151,524	151,524	170,150	18,626
Total revenues	<u>\$ 965,869</u>	<u>\$ 978,869</u>	<u>\$ 1,057,841</u>	<u>\$ 78,972</u>
Expenditures				
General government				
Legislative	\$ 19,310	\$ 19,310	\$ 14,384	\$ 4,926
Attorney	26,400	26,400	17,983	8,417
Elections	900	900	46	854
Financial administration	90,350	90,350	84,397	5,953
Other	23,345	27,345	24,968	2,377
Public Safety				
Police	321,850	321,850	301,932	19,918
Fire	27,300	27,300	21,227	6,073
Protective inspection	300	300	216	84
Public Works				
Streets	113,700	113,700	107,626	6,074
Street development	118,225	118,225	104,964	13,261
Snow removal	34,220	37,220	33,476	3,744
Street lights	45,300	51,300	46,403	4,897
Airport	159,800	159,800	111,590	48,210

See accompanying independent auditors' report  
and notes to the supplementary information.

**CITY OF MARTIN**  
**Martin, South Dakota**

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS (CONTINUED)**  
**GENERAL FUND**

**For the Year Ended December 31, 2019**

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Culture and recreation				
Parks	\$ 67,725	\$ 77,725	\$ 69,028	\$ 8,697
Markota	2,400	51,400	50,292	1,108
Pool	37,830	39,330	38,366	964
Golf	27,000	27,000	24,344	2,656
Museum	4,200	4,200	3,540	660
	<u>\$ 1,120,155</u>	<u>\$ 1,193,655</u>	<u>\$ 1,054,782</u>	<u>\$ 138,873</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(154,286)</u>	\$ <u>(214,786)</u>	\$ <u>3,059</u>	\$ <u>217,845</u>
Other financing sources (uses)				
Operating transfers from other funds	\$ 280,335	\$ 280,335	\$ 175,000	\$ (105,335)
Operating transfers to other funds	<u>(269,335)</u>	<u>(269,335)</u>	<u>(134,000)</u>	<u>135,335</u>
Total other financing sources (uses)	\$ <u>11,000</u>	\$ <u>11,000</u>	\$ <u>41,000</u>	\$ <u>30,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	\$ <u><u>(143,286)</u></u>	\$ <u><u>(203,786)</u></u>	\$ 44,059	\$ <u><u>247,845</u></u>
Fund balances, beginning of year			644,359	
Reclassification of Liquor Operating Agreements Fund			<u>401,688</u>	
Fund balances, end of year			<u><u>\$ 1,090,106</u></u>	

See accompanying independent auditors' report  
and notes to the supplementary information.

**CITY OF MARTIN**  
**Martin, South Dakota**

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS**  
**BBB TAX FUND**

**For the Year Ended December 31, 2019**

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
General sales and use taxes	\$ 55,000	\$ 55,000	\$ 47,163	\$ (7,837)
Investment earnings	<u>60</u>	<u>60</u>	<u>90</u>	<u>30</u>
Total revenues	<u>\$ 55,060</u>	<u>\$ 55,060</u>	<u>\$ 47,253</u>	<u>\$ (7,807)</u>
Expenditures				
Conservation and development				
Economic development	\$ <u>19,000</u>	\$ <u>19,000</u>	\$ <u>12,620</u>	\$ <u>6,380</u>
Total expenditures	<u>\$ 19,000</u>	<u>\$ 19,000</u>	<u>\$ 12,620</u>	<u>\$ 6,380</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 36,060</u>	<u>\$ 36,060</u>	<u>\$ 34,633</u>	<u>\$ (1,427)</u>
Other financing sources (uses)				
Operating transfers to other funds	\$ <u>(28,500)</u>	\$ <u>(40,000)</u>	\$ <u>(40,000)</u>	\$ <u>-</u>
Total other financing sources (uses)	<u>\$ (28,500)</u>	<u>\$ (40,000)</u>	<u>\$ (40,000)</u>	<u>\$ -</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 7,560</u>	<u>\$ (3,940)</u>	\$ (5,367)	<u>\$ (1,427)</u>
Fund balances, beginning of year			<u>36,397</u>	
Fund balances, end of year			<u>\$ 31,030</u>	

See accompanying independent auditors' report  
and notes to the supplementary information.

**CITY OF MARTIN**  
**Martin, South Dakota**

**NOTES TO THE SUPPLEMENTARY INFORMATION -**  
**BUDGETARY COMPARISON SCHEDULES**

**For the Year Ended December 31, 2019**

**NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING**

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriations 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 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. 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.

**NOTE 2 - OTHER COMPREHENSIVE BASIS OF ACCOUNTING - MODIFIED CASH BASIS/BUDGETARY ACCOUNTING BASIS DIFFERENCES**

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Fund's Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary Supplementary Information Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

See accompanying independent auditors' report.