

CITY OF PIEDMONT, SOUTH DAKOTA

Financial Statements

December 31, 2021

City of Piedmont, South Dakota
Table of Contents
December 31, 2021

	<u>PAGE</u>
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 <i>Government Auditing Standards</i>	1 - 2
Schedule of Findings and Management's Response.....	3 - 4
Independent Auditor's Report.....	5 - 7
 BASIC FINANCIAL STATEMENTS	
<i>Government-wide Financial Statements</i>	
Statement of Net Position - Modified Cash Basis.....	11
Statement of Activities - Modified Cash Basis.....	12 - 13
<i>Fund Financial Statements</i>	
Balance Sheet - Modified Cash Basis - Governmental Fund.....	14
Statement of Receipts, Disbursements, and Changes in Fund Balance - Modified Cash Basis - Governmental Fund.....	15
Statement of Net Position - Modified Cash Basis - Proprietary Fund.....	16
Statement of Receipts, Disbursements, and Changes in Fund Net Position - Modified Cash Basis - Proprietary Fund.....	17
Notes to the Financial Statements.....	18 - 26
 SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Budgetary Basis - General Fund.....	28 - 29
Notes to the Supplementary Information.....	30
List of City Officials.....	31

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*

Board of Trustees
City of Piedmont, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Piedmont, South Dakota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 31, 2022.

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) 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 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

RAPID CITY

909 ST. JOSEPH STREET, SUITE 101
RAPID CITY, SD 57701
605.348.1930

GILLETTE

612 S. DOUGLAS HWY
GILLETTE, WY 82716
307.682.4795

FAITH

127 MAIN ST. S.
FAITH, SD 57626
605.791.3142

Compliance and Other Matters

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

City of Piedmont, South Dakota's Response to Findings

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

Purpose of this Report

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

Casey Peterson, LTD

Casey Peterson, LTD

Rapid City, South Dakota

October 31, 2022

City of Piedmont, South Dakota
Schedule of Findings and Management's Response
December 31, 2021

Material Weakness

Lack of Segregation of Duties

2021-001 *Condition:* Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. The City of Piedmont, South Dakota has a concentration of incompatible duties related to the cash receipt process. This finding was reported in the prior year.

Criteria: Internal controls are designed to safeguard assets and prevent or detect losses from employee dishonesty or error. The Organization has a general lack of segregation of duties, which is a fundamental concept in a good system of internal control.

Cause: The City has a limited number of office personnel. There is often only one employee in the office receiving payments from customers which prevents proper segregation of duties related to the cash receipt cycles.

Effect: There is the potential that intentional or unintentional errors could be made and not be detected.

Auditor's Recommendation: The Board of Trustees should be aware of this condition and realize that the concentration of duties among a limited number of individuals is not desirable from a control perspective. Although proper segregation may not be possible due to the limited number of office personnel, the City can implement improvements to reduce the risk of errors or fraud. As the City accepts cash payments, there should always be more than one individual in the office.

Management's Response: The City of Piedmont is a fairly small city with only two part-time employees who handle the accounting, reporting, billing, and all other administrative functions needed by the City. The Board of Trustees remains involved in many of the day-to-day affairs of the organization.

The City recognizes there is a potential opportunity for errors or misappropriation in the cash receipting process but believes the potential loss is immaterial. The City does not feel it is cost-effective to add additional employees or increase hours to provide additional staffing for the water receipt process.

Responsible Parties: Finance Officer and Deputy Finance Officer

Time Frame: Ongoing

Material Weakness

Internal Control over the Preparation of Financial Statements and Accounting for Governmental and Business-type Activities

2021-002 *Condition:* The City requests its auditor to draft the year-end financial statements and accompanying notes. In addition, material adjustments were necessary to correct beginning equity, for each fund and as a whole, and to properly record activity in the governmental and proprietary funds.

Criteria: Establishing internal controls over the preparation of the financial statements and drafting the financial statements is the responsibility of management. The City should have an internal control system in place to prepare the financial statements and to prevent, or detect and correct, material misstatements.

Cause: The City does not have an internal control system in place to prepare the financial statements and to identify errors in the accounting records, which is common for a City of this size due to the limited number of office staff.

City of Piedmont, South Dakota
Schedule of Findings and Management's Response (Continued)
December 31, 2021

Effect: The City engages its auditor to draft the financial statements and notes to the financial statements. There is a risk that errors may occur and not be detected. In addition, material adjustments were proposed to correct beginning equity, to correct equity between funds, and to record transactions that occurred prior to year-end.

Auditor's Recommendation: The City should work to expand on the information provided to the auditor in drafting the financial statements and the related notes and perform a thorough review of the drafted financial statements, which includes reconciling information to the underlying documentation provided by management and other supporting schedules. During the year-end closing process, the City should review the accounting records, reconcile beginning equity for each fund and in total, and ensure appropriate activity is recorded on the modified cash basis of accounting as of year-end.

Management's Response: The City will work to improve the accuracy of accounting records and provide additional information to the auditor for use in drafting the financial statements and related notes.

Responsible Parties: Finance Officer and Deputy Finance Officer

Time Frame: Ongoing

Independent Auditor's Report

Board of Trustees
City of Piedmont, South Dakota

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2021, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

RAPID CITY

909 ST. JOSEPH STREET, SUITE 101
RAPID CITY, SD 57701
605.348.1930

GILLETTE

612 S. DOUGLAS HWY
GILLETTE, WY 82716
307.682.4795

FAITH

127 MAIN ST. S.
FAITH, SD 57626
605.791.3142

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedule and List of City Officials are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule and list of City Officials are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the supplementary information which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022 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 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.

Casey Peterson, LTD

Casey Peterson, LTD

Rapid City, South Dakota

October 31, 2022

BASIC FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

City of Piedmont, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2021

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,022,723	\$ (1,185)	\$ 1,021,538
Investments	<u>-</u>	<u>20,862</u>	<u>20,862</u>
TOTAL ASSETS	<u>\$ 1,022,723</u>	<u>\$ 19,677</u>	<u>\$ 1,042,400</u>
NET POSITION			
Restricted for:			
Amounts Owed to Others	\$ -	\$ 6,093	\$ 6,093
Reserved for Debt Service	-	51,227	51,227
Unrestricted	<u>1,022,723</u>	<u>(37,643)</u>	<u>985,080</u>
TOTAL NET POSITION	<u>\$ 1,022,723</u>	<u>\$ 19,677</u>	<u>\$ 1,042,400</u>

The accompanying notes are an integral part of this statement.

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

Functions/Programs	Disbursements	Charges for Services	Operating Grants, Loans, and Contributions
PRIMARY GOVERNMENT			
Governmental Activities:			
General Government	\$ 164,776	\$ 13,978	\$ 87,342
Public Safety	58	-	-
Public Works	128,529	57	-
Culture and Recreation	<u>54,357</u>	<u>-</u>	<u>150</u>
Total Governmental Activities	<u>347,720</u>	<u>14,035</u>	<u>87,492</u>
Business-type Activities:			
Water	<u>189,194</u>	<u>154,575</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 536,914</u>	<u>\$ 168,610</u>	<u>\$ 87,492</u>

GENERAL RECEIPTS

Taxes:

Sales Taxes

Property Taxes

Gross Business Taxes

Penalties and Interest on Delinquent Taxes

State Shared Receipts

County Shared Receipts

Fines and Forfeits

Contributions

Interest on Certificates of Deposit

Total General Receipts

CHANGE IN NET POSITION

NET POSITION, BEGINNING OF YEAR

NET POSITION, END OF YEAR

The accompanying notes are an integral part of this statement.

Capital Grants and Contributions	Net (Disbursements) Receipts and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ -	(63,456)	\$ -	\$ (63,456)
-	(58)	-	(58)
-	(128,472)	-	(128,472)
-	(54,207)	-	(54,207)
-	(246,193)	-	(246,193)
-	-	(34,619)	(34,619)
<u>\$ -</u>	<u>(246,193)</u>	<u>(34,619)</u>	<u>(280,812)</u>
	351,894	-	351,894
	158,466	-	158,466
	586	-	586
	294	-	294
	35,556	-	35,556
	16,955	-	16,955
	391	-	391
	240	-	240
	-	64	64
	<u>564,382</u>	<u>64</u>	<u>564,446</u>
	318,189	(34,555)	283,634
	<u>704,534</u>	<u>54,232</u>	<u>758,766</u>
	<u>\$ 1,022,723</u>	<u>\$ 19,677</u>	<u>\$ 1,042,400</u>

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Fund
December 31, 2021

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>1,022,723</u>
TOTAL ASSETS	\$ <u><u>1,022,723</u></u>
FUND BALANCE	
Unassigned	\$ <u>1,022,723</u>
TOTAL FUND BALANCE	\$ <u><u>1,022,723</u></u>

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Balance -
Modified Cash Basis - Governmental Fund
For the Year Ended December 31, 2021

	General Fund
GENERAL RECEIPTS	
Taxes:	
Sales and Use Taxes	\$ 351,894
Property Taxes	158,466
Gross Receipts Business Tax	586
Penalties and Interest on Delinquent Taxes	294
Licenses and Permits	13,978
Intergovernmental Receipts:	
Federal Grants	80,740
State Shared Revenue	35,556
County Road Tax	16,955
State Grants	6,602
Fines and Forfeits	391
Charges for Goods and Services	57
Miscellaneous Revenue	390
Total Receipts	665,909
DISBURSEMENTS	
General Government:	
Financial Administration	107,325
Legislative	23,802
Executive	5,687
Other	27,269
Public Safety	58
Public Works	33,166
Culture and Recreation:	
Libraries	50,388
Parks	3,969
Capital Outlay	96,056
Total Disbursements	347,720
NET CHANGE IN FUND BALANCE	318,189
FUND BALANCE, BEGINNING OF YEAR	704,534
FUND BALANCE, END OF YEAR	\$ 1,022,723

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Statement of Net Position - Modified Cash Basis - Proprietary Fund
December 31, 2021

	Water Fund
ASSETS	
Cash and Cash Equivalents	\$ (31,549)
Restricted Cash and Cash Equivalents	30,364
Restricted Investments	20,862
TOTAL ASSETS	\$ 19,677
NET POSITION	
Restricted:	
Amounts Owed to Others	\$ 6,093
Reserved for Debt Service	51,227
Unrestricted	(37,643)
TOTAL NET POSITION	\$ 19,677

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Balance -
Modified Cash Basis - Proprietary Fund
For the Year Ended December 31, 2021

	Water Fund
OPERATING RECEIPTS	
Revenue Dedicated to Servicing Debt	\$ 154,575
OPERATING DISBURSEMENTS	
Personal Services	9,856
Other Current Disbursements	108,044
Total Operating Disbursements	117,900
OPERATING INCOME	36,675
NONOPERATING RECEIPTS (DISBURSEMENTS)	
Principal Payments	(47,972)
Interest Payments	(23,322)
Interest on Certificates of Deposits	64
Total Nonoperating Disbursements	(71,230)
CHANGE IN NET POSITION	(34,555)
NET POSITION, BEGINNING	54,232
NET POSITION, ENDING	\$ 19,677

The accompanying notes are an integral part of this statement.

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The reporting entity of the City of Piedmont, South Dakota (the City) consists of the primary government which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity; 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.

B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Position - Modified Cash Basis and the Statement of Activities - Modified Cash Basis display information about the City. These statements include the financial activities of the overall government, except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The City has no fiduciary funds.

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

Fund Financial Statements:

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

1. Total assets, receipts, or disbursements of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts, or disbursements of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined,
or

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City are described below:

Governmental Funds:

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

Proprietary Funds:

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

- 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. (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.)
- b. 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.
- c. 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 operation of the municipal waterworks system and related facilities (SDCL 9-47-1). This fund 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" receipts and expenditures 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 accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, transactions are recorded when cash is received or disbursed.

Measurement Focus

Government-wide Financial Statements:

In the Statement of Net Position - Modified Cash Basis and the Statement of Activities - Modified Cash Basis, 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 in the Basis of Accounting section.

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 cash basis of accounting.

Basis of Accounting

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

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

Acceptable modifications to the modified cash basis of accounting implemented by the City in these financial statements include the recording of investments (certificates of deposits with terms to maturity more than 90 days from the date of acquisition) arising from cash transactions.

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

If the City applied accounting principles generally accepted in the United States of America, 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

The City pools its cash resources for deposit purposes. The proprietary fund has access to its cash resources on demand.

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 the 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 the date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Law (SDCL) 4-5-6.

The City maintains restricted cash deposits for the debt reserves required by the USDA debt agreement.

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. CAPITAL ASSETS

Under the modified cash basis of accounting, the City's capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash, in the government-wide financial statements, the fund financial statements and the proprietary financial statements.

F. LONG-TERM LIABILITIES

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

Long-term debt arising from cash transactions of all funds is not reported as liabilities in the modified cash basis financial statements.

G. PROGRAM RECEIPTS

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

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.

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.

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. The City had no program-specific capital grants and contributions in the current year.

H. PROPRIETARY FUNDS RECEIPTS AND DISBURSEMENTS CLASSIFICATION

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

I. EQUITY CLASSIFICATIONS

Government-wide Financial Statements:

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

Restricted Net Position - Consists of net position with constraints placed on the use either by external groups or law.

Unrestricted Net Position - Includes all other net positions that do not meet the definition of restricted net position.

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements:

The City classifies governmental fund balances as follows:

Nonspendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form, such as inventories or prepaids, or because of legal or contractual constraints. The City has no nonspendable fund balances.

Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, grantors, or contributors or amounts constrained due to constitutional provision 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 City Commissioners by resolution and do not lapse at year-end. No commitments have been made by the City.

Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Commissioners. The City has no assigned fund balances.

Unassigned - Includes 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 City uses restricted 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 disbursements are made.

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

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

J. 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.

K. REVENUES RECEIVED IN ADVANCE

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

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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. Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at the date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Law (SDCL) 4-5-6.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2020, the City's bank balances above FDIC limits are insured and collateralized in compliance with the South Dakota Public Deposit Protection Collateral Program.

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.

Credit Risk - State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. The City has all of its deposits in demand deposits and certificates of deposits.

NOTE 3 - PROPERTY TAXES

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

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 4 - COMMITMENTS

As discussed in Note 1.c., the financial statements are presented using a modified cash basis of accounting. The City has not elected to modify its cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements. The City does report the principal and interest payments on long-term debt as debt service expenditures on the Statement of Receipts, Disbursements, and Changes in Fund Net Position - Proprietary Fund. On the Statement of Activities, the principal and interest portion of these debt service payments are reported within the appropriate expense function. The City has included the summary of changes in long-term liabilities for the year ended December 31, 2021, due to the importance of the information provided:

The following is a summary of the long-term commitments for the year ended December 31, 2021:

	<u>Balance 12/31/20</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/21</u>	<u>Due Within One Year</u>
Business-type Activities:					
General Obligation Bond	\$ 303,035	\$ -	\$ (20,541)	\$ 282,494	\$ 18,005
Revolving Revenue Bond	<u>429,316</u>	<u>-</u>	<u>(27,431)</u>	<u>401,885</u>	<u>28,263</u>
	<u>\$ 732,351</u>	<u>\$ -</u>	<u>\$ (47,972)</u>	<u>\$ 684,379</u>	<u>\$ 46,268</u>

Long-term debt at December 31, 2021, is comprised of the following:

The General Obligation Bond, Series 2011, was issued to finance Phase 1 of a two-phase project for improvements to the City's water supply system and distribution system. The bond bears interest at 3.375% , due in monthly installments of \$2,407 and was originally due through April 1, 2051. The bond is financed by the water fund. The City has prepaid \$198,958 in debt principal resulting in a revised maturity schedule as the outstanding principal will be paid off prior to 2051. The prepaid principal has been applied to the ending years of the maturity schedule as the financing institution has not revised the payment schedule including principal and interest on the maturity schedule. Interest paid for the year ended December 31, 2021, was \$10,749.

\$ 282,494

The 2010 State Revolving Fund Revenue Bond was issued to finance Phase II of the two-phase project for improvements to the City's water supply and distribution system. The bond bears interest at 3% and is due in quarterly installments of \$10,001 through April, 2033 and is financed through the Water Fund. Interest paid for the year ended December 31, 2021, was \$12,573.

401,885

Total Long-term Debt

\$ 684,379

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 4 - COMMITMENTS (CONTINUED)

The annual requirements to amortize the long-term liability outstanding as of December 31, 2021, (using the revised repayment schedule for the General Obligation Bond), including interest are as follows:

	Principal	Interest	Total
2022	\$ 46,268	\$ 20,213	\$ 66,481
2023	49,390	19,498	68,888
2024	50,968	17,920	68,888
2025	52,597	16,291	68,888
2026	54,278	14,610	68,888
2027-2031	298,556	45,883	344,439
2032-2034	132,322	4,554	136,876
	\$ 684,379	\$ 138,969	\$ 823,348

NOTE 5 - RISK MANAGEMENT

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 government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and to provide them with risk management services, loss control, and risk reduction information and to obtain lower costs for that coverage. The County'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 County. The County pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under an occurrence-based policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The County pays an annual premium to the pool to provide coverage for torts, theft or damage to property, and errors and omissions of public officials.

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

The City has no deductible for general liability coverage, a \$5,000 deductible for errors and omissions of public officials, and a \$500 deductible for all other claims.

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

Unemployment Benefits

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

City of Piedmont, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 5 - RISK MANAGEMENT (CONTINUED)

Workmen's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The 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 limit of \$2,000,000 per incident.

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

NOTE 6 - RESTRICTED NET POSITION

The amount classified as restricted net position at December 31, 2021 is classified as follows:

Purpose	Restricted By	Amount
Amounts Owed to Sanitary District	Contractual Agreement	\$ 6,093
Debt Service	Debt Covenants	<u>51,227</u>
		<u>\$ 57,320</u>

NOTE 7 - AGREEMENT WITH MEADE COUNTY SCHOOLS

The City entered into an agreement with Meade County School District for the construction of the water line to the new Piedmont Elementary School in September 2010. Meade County School District paid \$420,000 to the City for the construction of the water line. The City will credit the school district \$5,250 in 40 annual installments against its monthly water bill. The school district paid \$0 and was credited \$5,250 in water user fees for the year ended December 31, 2021.

NOTE 8 - SUBSEQUENT EVENTS

Subsequent to year-end, the City entered into an agreement to sell bulk water to a contractor for \$10 per 1,000 gallons, which will generate additional revenue for the water fund.

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

SUPPLEMENTARY INFORMATION

City of Piedmont, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
December 31, 2021

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Taxes:				
Sales and Use Taxes	\$ 250,000	\$ 250,000	\$ 351,894	\$ 101,894
Property Taxes	165,000	165,000	158,466	(6,534)
Gross Business Taxes	1,000	1,000	586	(414)
Penalties and Interest on Delinquent Taxes	-	-	294	294
Intergovernmental Receipts:				
Federal Grants	-	-	80,740	80,740
State Shared Revenue	25,000	25,900	35,556	9,656
County Road Tax	17,000	17,000	16,955	(45)
State Grants	-	-	6,602	6,602
Licenses and Permits	4,200	4,200	13,978	9,778
Fines and Forfeits	500	500	391	(109)
Charges for Goods and Services	1,000	1,000	57	(943)
Proceeds from Disposal of Assets	100	100	-	(100)
Miscellaneous Revenue	100	100	390	290
Total Receipts	<u>463,900</u>	<u>464,800</u>	<u>665,909</u>	<u>201,109</u>
DISBURSEMENTS				
General Government:				
Financial Administration	176,500	176,500	107,325	69,175
Legislative	24,000	24,000	23,802	198
Executive	5,600	5,600	5,687	(87)
Other	20,000	20,000	27,269	(7,269)
Total General Government	<u>226,100</u>	<u>226,100</u>	<u>164,083</u>	<u>62,017</u>
Public Safety	1,000	1,000	58	942
Public Works	996,050	604,150	129,222	474,928
Culture and Recreation:				
Parks	18,000	18,000	50,388	(32,388)
Libraries	54,500	57,400	3,969	53,431
Total Culture and Recreation	<u>72,500</u>	<u>75,400</u>	<u>54,357</u>	<u>21,043</u>
Contingency	68,250	58,150	-	58,150
Total Disbursements	<u>1,363,900</u>	<u>964,800</u>	<u>347,720</u>	<u>617,080</u>

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

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>(200,000)</u>	<u>-</u>	<u>200,000</u>
NET CHANGE IN FUND BALANCE	<u>(900,000)</u>	<u>(700,000)</u>	<u>318,189</u>	<u>1,018,189</u>
FUND BALANCE, BEGINNING OF YEAR	<u>704,534</u>	<u>704,534</u>	<u>704,534</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ (195,466)</u>	<u>\$ 4,534</u>	<u>\$ 1,022,723</u>	<u>\$ 1,018,189</u>

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

City of Piedmont, South Dakota
Notes to the Supplementary Information
December 31, 2021

BASIS OF PRESENTATION

The budgetary comparison schedule has been prepared on the modified cash basis of accounting and presents capital outlay and debt service disbursements within each function similar to the Statement of Activities - Modified Cash Basis.

BUDGETS AND BUDGETARY ACCOUNTING

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

1. At the regular meeting in June each year, 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 disbursements for each purpose cannot exceed the amounts budgeted except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such line item may not exceed five 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, 2021 or December 31, 2020.

See independent auditor's report.

**City of Piedmont, South Dakota
List of City Officials
December 31, 2021**

PRESIDENT

Phil Anderson

VICE PRESIDENT

Jack Parks

TRUSTEES

Phil Aitken
Mike Lee
Jim Runyan

FINANCE OFFICER

Diana L Evans

WATER

Jeff Kottwitz

See independent auditor's report.