

Municipality of Pukwana, SD

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

**For the Year Ended
December 31, 2020**

Municipality of Pukwana, SD

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**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees
Municipality of Pukwana, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities and each major fund of the Municipality of Pukwana, South Dakota (Municipality) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Municipality’s basic financial statements, and have issued our report thereon dated May 10, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 in the accompanying Schedule of Audit Findings that we consider to be significant deficiencies; see findings 2020-001, 2020-002 and 2020-003.

Compliance and Other Matters

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

Municipality of Pukwana, SD's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Municipality's response to the findings identified in our audit. The Municipality's response to the findings in our audit are described in the Schedule of Current Audit Findings and Questioned Costs. The Municipality's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

A handwritten signature in blue ink that reads "CIO of LLC". The signature is written in a cursive, somewhat stylized font.

Chamberlain, South Dakota
May 10, 2022



Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Trustees
Municipality of Pukwana, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Municipality of Pukwana's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Municipality of Pukwana's major federal programs for the year ended December 31, 2020. Municipality of Pukwana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Municipality of Pukwana's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Pukwana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality of Pukwana's compliance.

Opinion on Each Major Federal Program

In our opinion, Municipality of Pukwana complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of Municipality of Pukwana is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality of Pukwana's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of Pukwana's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

Handwritten signature in cursive script, appearing to read "CIO of LLC".

Chamberlain, South Dakota
May 10, 2022

Municipality of Pukwana, SD
 Schedule of Current Year Audit Findings and Questioned Costs
 December 31, 2020

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiencies identified that are not considered to be material weakness(es)? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiencies identified that are not material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a). _____ yes X no

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Wastewater System Improvement

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes X no

Municipality of Pukwana, SD
Schedule of Current Year Audit Findings and Questioned Costs
December 31, 2020 (Continued)

Section II – Financial Statement Findings

Internal Control-Relate Findings – Significant Deficiencies:

Finding No. 2020-001 – Lack of segregation of duties (internal control)

Criteria: A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The Municipality has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, payroll, and review of manual journal entries functions due to a lack of segregation of duties.

Cause: The finance officer processes all revenue transactions from beginning to end as well as receives money, issues receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect: There is an increase likelihood that fraud or errors could occur and not be detected in a timely manner by employees or others in the ordinary course of performing their duties.

Recommendation: Municipality officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

Views of Responsible Officials: The Municipality agrees with the finding. A response can be found in the Corrective Action Plan.

Finding No. 2020-002 – Internal control over financial reporting

Criteria: The Municipality's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

Condition: The Municipality requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2020. As a part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the Municipality's existing internal controls and, therefore, could result in a misstatement of the Municipality's financial statements.

Cause: The Municipality does not have adequately trained staff to prepare financial statements and the related footnotes and could cause the need for auditors to, at times, propose material journal entries.

Effect: This condition may affect the Municipality's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Municipality of Pukwana, SD
Schedule of Current Year Audit Findings and Questioned Costs
December 31, 2020 (Continued)

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: The Municipality agrees with the finding. A response can be found in the Corrective Action Plan.

Compliance and Other Matters:

Finding No. 2020-003 – Compliance with State Laws

Criteria: The Municipality did not comply with South Dakota Codified Laws. SDCL 9-21-2 requires the annual appropriation ordinance appropriate sums of money necessary to meet all lawful expenses of the municipality. SDCL 9-21-7 requires the Municipality to appropriate sufficient resources to fund its operations or appropriate additional resources through a supplemental budget.

Condition: The Municipality adopted a budget in violation with SDCL 9-21-2 and violated SDCL 9-21-7 with a budget overdraft.

Cause: The Municipality adopted budget was short in comparisons to appropriations. The Municipality did not approve a supplement the budget

Effect: Noncompliance with South Dakota Codified Laws.

Recommendation: The Municipality should review and use the Department of Legislative Audit Municipal Manual and comply with South Dakota Codified Laws.

Views of Responsible Officials: The Municipality agrees with the finding. A response can be found in the Corrective Action Plan.

Section III – Federal Award Findings and Questioned Costs

There are no findings or questioned costs relating to federal award programs which are required to be reported in accordance with 2 CFR 200.516(a).

Municipality of Pukwana, SD
Schedule of Prior Year Audit Findings
December 31, 2020

Finding No. 2019-001 – Lack of segregation of duties (internal control)

Criteria: A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The Municipality has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, payroll, and review of manual journal entries functions due to a lack of segregation of duties.

Cause: The finance officer processes all revenue transactions from beginning to end as well as receives money, issues receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect: There is an increase likelihood that fraud or errors could occur and not be detected in a timely manner by employees or others in the ordinary course of performing their duties.

Recommendation: Municipality officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

Current Status: The Municipality accepted the risk. Due to the small size of the Municipality it is not cost beneficial to employ additional personnel to adequately segregate the duties above. The Municipality continues to regularly provide compensating controls whenever and wherever possible and considers the external audit a major component of internal control processes.

Finding No. 2019-002 – Internal control over financial reporting

Criteria: The Municipality's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

Condition: The Municipality requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2019. As a part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the Municipality's existing internal controls and, therefore, could result in a misstatement of the Municipality's financial statements.

Cause: The Municipality does not have adequately trained staff to prepare financial statements and the related footnotes and could cause the need for auditors to, at times, propose material journal entries.

Effect: This condition may affect the Municipality's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Municipality of Pukwana, SD
Schedule of Prior Year Audit Findings
December 31, 2020 (Continued)

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

Current Status: The Municipality accepted the risk. The Municipality is aware that current staffing will result in an on-going audit finding in this internal control matter. The Municipality has determined that it is not cost beneficial to employ an accounting professional level finance officer. The Municipality will continue to regularly provide compensating controls whenever and wherever possible and practical.

Finding No. 2019-003 – Compliance with State Laws

Criteria: The Municipality did not comply with the disclosure and operating laws of South Dakota Codified Laws. SDCL 6-1-10 requires the Municipality to disclose complete list of salaries and wages, SD 9-21-7 requires the Municipality to appropriate sufficient resources to fund its operations or appropriate additional resources through a supplemental budget, SDCL 9-22-6 requires the Municipality to disclose a depository into which they shall deposit their funds into.

Condition: The Municipality has a limited number of employees with insufficient training and guidance to ensure that South Dakota Codified Laws are explicitly followed. The Pukwana Board of Trustees lacks the training to sufficiently assist with oversight and ensure compliance with these laws and regulations.

Cause: The Municipality does not have adequate training and the oversights were not material to the financial statements. The Municipality disclosed the raises to wages but failed to disclose the total wage rate. The Municipality did do a supplemental budget but did not do it until the board meeting subsequent to the end of the year and there were sufficient resources allocated overall just not to the appropriate funds. The Municipality did not disclose its depository bank but did not make any changes to their depository from previous years.

Effect: Noncompliance with South Dakota Codified Laws.

Recommendation: The Municipality should review and use the Department of Legislative Audit Municipal Manual and comply with South Dakota Codified Laws.

Current Status: The Municipality monitors compliance with the state's codified laws.

Municipality of Pukwana, SD

Office of the Finance Officer
Phone: (605)-730-0456

PO Box 87
Pukwana SD 57370

Corrective Action Plan (Unaudited)

Municipality of Pukwana respectfully submits the following corrective action plan for the year ended December 31, 2020

Name and address of independent public accounting firm:

ELO Prof. LLC
316 Sorensen Dr
Chamberlain, SD 57325

Findings - Financial Statement Audit

Finding No. 2020-001 – Lack of segregation of duties (internal control)

Corrective Action Plan: The Municipality has accepted the risk associated with Finding 2020-001 regarding the lack of segregation of duties and will continue to have the Board oversee operations.

Anticipated Completion Date: Ongoing.

Finding No. 2020-002 – Internal control over financial reporting

Corrective Action Plan: The Municipality has accepted the risk associated with Finding 2020-002 regarding the internal control over financial reporting. The Municipality requested the external auditors to prepare the financial statements, and related notes for the year ended.

Anticipated Completion Date: Ongoing.

Finding No. 2020-003 – Compliance with State Laws

Corrective Action Plan: The Municipality agrees with the finding and will monitor its budget process for proper compliance.

Anticipated Completion Date: July 1, 2022.

If there are questions regarding this plan, please call Lonni Sharping, Finance Officer, at 605-730-0456.



Independent Auditor's Report

To the Board of Trustees
Municipality of Pukwana, South Dakota

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Municipality of Pukwana as of December 31, 2020, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

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

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The budgetary comparison schedule, notes to the budgetary comparison schedule, the schedule of Municipal contributions, and the schedule of the Municipality's proportionate share of net pension liability listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's financial statements. The Schedule of Expenditures of Federal Awards, which is required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2022 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Chamberlain, South Dakota
May 10, 2022

Municipality of Pukwana, SD
Statement of Net Position – Modified Cash Basis
December 31, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ --	\$ 275,990	\$ 275,990
Total Assets	--	275,990	275,990
Liabilities:			
Drafts payable	6,063	--	6,063
Total Liabilities	6,063	--	6,063
Net Position:			
Unrestricted	(6,063)	275,990	269,927
Total Net Position	\$ (6,063)	\$ 275,990	\$ 269,927

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

Municipality of Pukwana, SD
Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
Primary Government:						
Governmental Activities:						
General government	\$ 100,358	\$ 2,255	\$ --	\$ (98,103)	\$ --	\$ (98,103)
Public safety	10,351	--	--	(10,351)	--	(10,351)
Public works	105,380	15,901	21,981	(67,498)	--	(67,498)
Health and welfare	5,862	--	1,766	(4,096)	--	(4,096)
Total Governmental Activities	221,951	18,156	23,747	(180,048)	--	(180,048)
Business-type Activities:						
Water	98,635	58,647	--	--	(39,988)	(39,988)
Sewer	1,277,937	30,562	1,017,540	--	(229,835)	(229,835)
Electric	302,420	234,915	--	--	(67,505)	(67,505)
Solid Waste	23,807	31,262	--	--	7,455	7,455
Total Business-Type Activities	1,702,799	355,386	1,017,540	--	(329,873)	(329,873)
Total Primary Government	\$ 1,924,750	\$ 373,542	\$ 1,041,287	(180,048)	(329,873)	(509,921)
General revenues:						
Taxes:						
Property tax				56,635	--	56,635
Sales tax				57,920	--	57,920
State shared revenues				7,780	--	7,780
Unrestricted investment earnings				16	259	275
Debt Issued				--	234,000	234,000
Miscellaneous				14,514	--	14,514
Transfers				32,500	(32,500)	--
Total General Revenues and Transfers				169,365	201,759	371,124
Change in Net Position				(10,683)	(128,114)	(138,797)
Net Position-Beginning of Year				4,620	404,104	408,724
Net Position-Ending of Year				\$ (6,063)	\$ 275,990	\$ 269,927

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

Municipality of Pukwana, SD
Balance Sheet – Modified Cash Basis
Governmental Funds
December 31, 2020

	<u>General Fund</u>
Liabilities	
Drafts payable	\$ 6,063
Total Liabilities	<u>\$ 6,063</u>
Fund Balances	
Unassigned	\$ (6,063)
Total Fund Balances	<u>\$ (6,063)</u>

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

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

	General Fund
Revenues:	
Taxes	
General property taxes	\$ 56,515
General sales and use taxes	57,920
Amusement taxes	120
Licenses and permits	740
Intergovernmental Revenues:	
State grants	1,766
State shared revenue	
Bank franchise tax	539
Prorate license fees	970
Liquor tax reversion (25%)	7,241
Motor vehicle licenses	5,537
Local government highway and bridge fund	14,578
County shared revenue	
County wheel tax	896
Charges for goods and services	
Other	15,901
Miscellaneous	
Investment earnings	16
Rentals	1,515
Other	14,514
Total Revenues	178,768

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

Municipality of Pukwana, SD
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2020 (Continued)

	General Fund
Expenditures:	
Current:	
General government:	
Legislative	16,031
Financial administration	82,943
Other	1,384
Public safety:	
Fire	10,351
Public works:	
Highways and streets	105,380
Health and welfare:	
Health	5,862
Total Expenditures	221,951
Excess of Revenues (Under) Expenditures	(43,183)
Other Financing Sources:	
Transfers in	32,500
Net Change in Fund Balance	(10,683)
Fund Balance - Beginning of Year	4,620
Fund Balance - End of Year	\$ (6,063)

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

Municipality of Pukwana, SD
Statement of Net Position – Modified Cash Basis
Proprietary Funds
December 31, 2020

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	
Assets					
Cash and cash equivalents	\$ 5,814	\$ 58,060	\$ 202,870	\$ 9,246	\$ 275,990
Total Assets	<u>\$ 5,814</u>	<u>\$ 58,060</u>	<u>\$ 202,870</u>	<u>\$ 9,246</u>	<u>\$ 275,990</u>
Net Position					
Unrestricted	\$ 5,814	\$ 58,060	\$ 202,870	\$ 9,246	\$ 275,990
Total Net Position	<u>\$ 5,814</u>	<u>\$ 58,060</u>	<u>\$ 202,870</u>	<u>\$ 9,246</u>	<u>\$ 275,990</u>

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

Municipality of Pukwana, SD

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

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	
Operating Revenues:					
Charges for goods and services	\$ 58,647	\$ 30,562	\$ 229,115	\$ 31,262	\$ 349,586
Miscellaneous	--	--	5,800	--	5,800
Total Operating Revenues	58,647	30,562	234,915	31,262	355,386
Operating Expenses:					
Personal services	--	21,183	1,704	--	22,887
Other current expense	9,676	8,020	41,137	--	58,833
Materials	23,846	--	232,879	23,807	280,532
Total Operating Expenses	33,522	29,203	275,720	23,807	362,252
Operating Income (Loss)	25,125	1,359	(40,805)	7,455	(6,866)
Nonoperating Revenue (Expense):					
Operating grants	--	1,017,540	--	--	1,017,540
Investment earnings	5	82	163	9	259
Capital assets	--	(1,242,749)	(26,700)	--	(1,269,449)
Debt service - principal	(59,978)	(3,605)	--	--	(63,583)
Debt service - interest	(5,135)	(2,380)	--	--	(7,515)
Long-term debt issued	--	234,000	--	--	234,000
Total Nonoperating Expenses	(65,108)	2,888	(26,537)	9	(88,748)
Other Financing Sources:					
Transfers in (out)	57,052	(57,052)	--	(32,500)	(32,500)
Change in Net Position	17,069	(52,805)	(67,342)	(25,036)	(128,114)
Net Position - Beginning of Year	(11,255)	110,865	270,212	34,282	404,104
Net Position - Ending of Year	\$ 5,814	\$ 58,060	\$ 202,870	\$ 9,246	\$ 275,990

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

Municipality of Pukwana, SD
Statement of Cash Flows – Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2020

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	
Cash Flows from Operating Activities:					
Receipt from customers	\$ 58,647	\$ 30,562	\$ 234,915	\$ 31,262	\$ 355,386
Payments to suppliers	(33,522)	(8,020)	(274,016)	(23,807)	(339,365)
Payments to employees	--	(21,183)	(1,704)	--	(22,887)
Net Cash Provided (Used) by Operating Activities	<u>25,125</u>	<u>1,359</u>	<u>(40,805)</u>	<u>7,455</u>	<u>(6,866)</u>
Cash Flows from Noncapital Financing Activities:					
Cash received from operating grants	--	1,017,540	--	--	1,017,540
Net Cash Received from Noncapital Financing Activities	<u>--</u>	<u>1,017,540</u>	<u>--</u>	<u>--</u>	<u>1,017,540</u>
Cash Flows from Capital and Related Financing Activities:					
Purchase of capital assets	--	(1,242,749)	(26,700)	--	(1,269,449)
Interfund transfers	57,052	(57,052)	--	(32,500)	(32,500)
Principal payments on debt	(59,978)	(3,605)	--	--	(63,583)
Interest payments on debt	(5,135)	(2,380)	--	--	(7,515)
Proceeds from long-term debt	--	234,000	--	--	234,000
Net Cash Provided by Capital and Investing Activities	<u>(8,061)</u>	<u>(1,071,786)</u>	<u>(26,700)</u>	<u>(32,500)</u>	<u>(1,139,047)</u>
Cash Flows from Investing Activities:					
Interest Earnings	5	82	163	9	259
Net Cash Received from Noncapital Financing Activities	<u>5</u>	<u>82</u>	<u>163</u>	<u>9</u>	<u>259</u>
Net (Decrease) in Cash and Cash Equivalents	17,069	(52,805)	(67,342)	(25,036)	(128,114)
Cash and Cash Equivalents - Beginning of Year	<u>(11,255)</u>	<u>110,865</u>	<u>270,212</u>	<u>34,282</u>	<u>404,104</u>
Cash and Cash Equivalents - Ending of Year	<u>\$ 5,814</u>	<u>\$ 58,060</u>	<u>\$ 202,870</u>	<u>\$ 9,246</u>	<u>\$ 275,990</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	<u>\$ 25,125</u>	<u>\$ 1,359</u>	<u>\$ (40,805)</u>	<u>\$ 7,455</u>	<u>\$ (6,866)</u>

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

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

1. Summary of Significant Accounting Policies:

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

a. Financial Reporting Entity:

The reporting entity of the Municipality of Pukwana, (Municipality) 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 Municipality 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 Municipality (primary government). The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

At this time, Pukwana has no component units which are separate legal entities and for which the Municipality is financially accountable.

b. 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.

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

1. Summary of Significant Accounting Policies: (Continued)

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

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

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

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

Governmental Funds:

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

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

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. (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 construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Sewer Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

Electric Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-39-1). This is a major fund.

Solid Waste Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

c. Measurement Focus and Basis of Accounting:

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

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

1. Summary of Significant Accounting Policies: (Continued)

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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 modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed, and assets and liabilities are recognized to the extent that cash has been received or disbursed. An acceptable modification to the cash basis of accounting implemented by the Municipality in these financial statements is:

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

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

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

1. Summary of Significant Accounting Policies: (Continued)

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit 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. Under the modified cash basis of accounting, investments are carried at cost.

e. Capital Assets:

Capital assets include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Under the modified cash basis of accounting, capital assets are recorded when they result from cash transactions. The accounting treatment for property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary funds and whether they are reported in the government-wide or fund financial statements. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

As discussed in Note 1.c. above the government-wide Statement of Net Position, and the Statement of Net Activities and the fund financial statements, governmental, and business-type are presented using the modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating those assets where appropriate, so any capital assets owned by the Municipality and the related depreciation are not reported on the financial statements of the Municipality.

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

1. Summary of Significant Accounting Policies: (Continued)

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, Revenue Bonds.

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

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

g. Program Revenues:

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

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

h. Proprietary Funds Revenue and Expense Classifications:

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

i. Cash and Cash Equivalents:

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

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

1. Summary of Significant Accounting Policies: (Continued)

j. Equity Classifications:

Government-wide Statements:

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

1. Restricted Net Position – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net position – All other net position that does not meet the definition of Restricted Net Position.

Fund Financial Statements:

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

k. Application of Net Position:

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

l. Fund Balance Classification Policies and Procedures:

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

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

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

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

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

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

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

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

As of December 31, 2020, the Municipality did not have any investments. The investments reported in the financial statements consist only of certificates of deposits.

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

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

Interest Rate Risk – The Municipality does not have a formal investment policy that limits investment 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 Municipality’s policy is to credit all income from deposits and investments to the fund making the investment.

3. Property Taxes:

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

3. Property Taxes: (Continued)

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

4. Pension Plan:

Plan Information:

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

Benefits Provided:

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

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

Members that were hired on/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.

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

4. Pension Plan: (Continued)

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2020, 2019, and 2018 were \$7,003, \$4,526, and \$3,309, respectively, equal to the required contributions each year.

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

Proportionate share of pension liability	\$ 577,267
Less proportionate share of net pension restricted for pension benefits	577,471
Proportionate share of net pension (asset)	\$ (204)

The net pension (asset) was measured as of June 30, 2020 and the total pension liability used to calculate the net pension (asset) was based upon a projection of the Municipality’s share of contributions to the pension plan relative to the contributions of all participating entities. As of June 30, 2020, the Municipality’s proportion was 0.00469590% which is an increase of 0.0019719% from its proportion measured as of June 30, 2019.

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

4. Pension Plan: (Continued)

Actuarial Assumptions:

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

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

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentages of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.) The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 (see the discussion of the investment plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%
Total	<u>100%</u>	

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

4. Pension Plan: (Continued)

Discount Rate:

The discount rate used to measure the total pension (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

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

	1% Decrease	Current Discount Rate	1% Increase
County's/Municipality's proportionate share of the net pension liability (asset)	\$ 79,116	\$ (204)	\$ (65,086)

Pension Plan Fiduciary Net Position:

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

5. Risk Management:

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2020, the Municipality managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Municipality of Pukwana, SD
Notes to the Modified Cash Basis Financial Statements
December 31, 2020

5. Risk Management: (Continued)

Worker's Compensation:

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

Unemployment Benefits:

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

6. Interfund Transfers:

Interfund transfers for the year ended December 31, 2020 were as follows:

	Transfers to:	
Transfers from:	Water	General
Sewer	\$ 57,052	--
Solid Waste Fund	--	\$ 32,500

7. Risks and Uncertainties:

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

8. Deficit Net Position:

As of December 31, 2020, the General fund has a deficit net position of \$6,063. The Municipality plans to transfer funds as needed.

Supplementary Information

Municipality of Pukwana, SD
 Budgetary Comparison Schedules – Modified Cash Basis
 General Fund
 For the Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
General property taxes	\$ 54,728	\$ 54,728	\$ 56,515	\$ 1,787
General sales and use taxes	46,000	46,000	57,920	11,920
Amusement taxes	--	--	120	120
Licenses and permits	500	500	740	240
Intergovernmental Revenues:				
State grants	--	--	1,766	1,766
State shared revenue				
Bank franchise tax	--	--	539	539
Prorate license fees	--	--	970	970
Liquor tax reversion (25%)	--	--	7,241	7,241
Motor vehicle licenses	--	--	5,537	5,537
Local government highway and bridge fund	19,000	19,000	14,578	(4,422)
County shared revenue				
County wheel tax	--	--	896	896
Charges for goods and services				
Other	18,500	18,500	15,901	(2,599)
Miscellaneous				
Investment earnings	--	--	16	16
Rentals	6,900	6,900	1,515	(5,385)
Other	--	--	14,514	14,514
Total Revenues	<u>145,628</u>	<u>145,628</u>	<u>178,768</u>	<u>33,140</u>

See accompanying Note to Budgetary Comparison Schedule.

Municipality of Pukwana, SD
 Budgetary Comparison Schedules – Modified Cash Basis
 General Fund
 For the Year Ended December 31, 2020 (Continued)

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Expenditures				
General Government:				
Legislative	\$ 12,710	\$ 12,710	\$ 16,031	\$ (3,321)
Contingency	10,000	10,000	--	10,000
Elections	1,050	1,050	--	1,050
Financial administration	104,520	104,520	82,943	21,577
Other	2,000	2,000	1,384	616
Public Safety:				
Fire	16,450	16,450	10,351	6,099
Public Works:				
Highways and streets	180,530	180,530	105,380	75,150
Animal Control	400	400	--	400
Health and Welfare:				
Health	9,000	9,000	5,862	3,138
Total Expenditures	<u>336,660</u>	<u>336,660</u>	<u>221,951</u>	<u>118,030</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(191,032)</u>	<u>(191,032)</u>	<u>(43,183)</u>	<u>151,170</u>
Other Financing Sources (Uses):				
Transfers-in	<u>--</u>	<u>--</u>	<u>32,500</u>	<u>32,500</u>
Net Change in Fund Balances	(191,032)	(191,032)	(10,683)	183,670
Fund Balance, Beginning of Year	4,620	4,620	4,620	--
Fund Balance, End of Year	<u>\$ (186,412)</u>	<u>\$ (186,412)</u>	<u>\$ (6,063)</u>	<u>\$ 183,670</u>

See accompanying Note to Budgetary Comparison Schedule.

Municipality of Pukwana, SD
Notes to the Supplemental Information – Budgetary Comparison Schedule
December 31, 2020

Note 1: Budgets and Budgetary Accounting:

The Municipality follows these procedures in establishing the budgetary data reflected in the schedule

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board.
6. Formal budgetary integration is employed as a management control device during the year for the General 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 Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI 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.

Municipality of Pukwana, SD
Schedule of Changes in Long-Term Debt
December 31, 2020

<u>Indebtedness</u>	<u>Long-Term Debt 1/1/20</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/20</u>
Enterprise Long-Term Debt:				
Revenue Bonds	\$ 191,445	\$ 234,000	\$ 63,583	\$ 361,862
Total Long Term Debt:	<u>\$ 191,445</u>	<u>\$ 234,000</u>	<u>\$ 63,583</u>	<u>\$ 361,862</u>

Municipality of Pukwana, SD
Schedule of the Municipality's
Proportionate Share of the Net Pension Liability (Asset)
December 31, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Municipality's proportion of the net pension liability/asset	0.0046959%	0.0027240%	0.0026224%	0.0024377%	0.0027907%	0.0014652%
Municipality's proportionate share of net pension liability (asset)	\$ (204)	\$ (289)	\$ (61)	\$ (221)	\$ 9,427	\$ (6,214)
Municipality's covered-employee payroll	\$ 104,062	\$ 57,918	\$ 53,312	\$ 50,652	\$ 48,788	\$ 27,259
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.20%	0.50%	0.11%	0.44%	19.32%	22.80%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.04%	100.09%	100.02%	100.10%	96.89%	104.10%

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

**GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Municipality will present information for those years for which information is available.

Municipality of Pukwana, SD
Notes to Schedule of the Municipality's
Proportionate Share of the Net Pension Liability (Asset)
December 31, 2020

Changes from Prior Valuation:

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

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

Benefit Provision Changes:

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

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

Actuarial Assumption Changes:

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2019 and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019 and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% restricted maximum COLA.

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

Actuarial Method Changes:

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

Municipality of Pukwana, SD
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2020

Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture - Pass-Through Programs:		
SD Department of Agriculture		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 531,076
U.S Department of Housing and Urban Development - Pass Through Programs:		
SD Govenors's Office of Economic Development		
Community Development Block Grant/State's Program	14.228	763,000
Grant Total		<u><u>\$ 1,294,076</u></u>

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Municipality under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Municipality.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Municipality has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Municipality of Pukwana, SD
Municipal Officials
December 31, 2020

Governing Board Members:

Larry McManus----- Council President
William Hanson-----Council Member
Steve Percing-----Council Member

Lonnie Sharping -----Municipal Finance Officer