

CITY OF WHITEWOOD

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

ktllp.com

CITY OF WHITEWOOD

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor’s Report	3-4
<i>Government-wide Financial Statements:</i>	
Statement of Net Position	5
Statement of Activities	6
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet	7-8
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position	9
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances ...	10-13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities	14
Proprietary Funds Statement of Net Position.....	15-16
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position.....	17
Proprietary Funds Statement of Cash Flows.....	18
Notes to the Financial Statements.....	19-38
<i>Other Reports:</i>	
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>	40-41
Schedule of Findings	42-43
<i>Management Response:</i>	
Schedule of Prior Findings	45
Corrective Action Plan	46



810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT

City Council
City of Whitewood
Whitewood, South Dakota

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF WHITEWOOD** (the City), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Management has omitted management’s discussion and analysis, budgetary comparison information, and pension disclosure information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2021 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 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 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.



KETEL THORSTENSON, LLP
Certified Public Accountants

June 22, 2021

CITY OF WHITEWOOD

**STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	GOVERNMENTAL <u>ACTIVITIES</u>	BUSINESS-TYPE <u>ACTIVITIES</u>	<u>TOTAL</u>
Assets:			
Cash and Investments (Note 2)	\$ 752,220	\$ 876,928	\$ 1,629,148
Receivables (Note 11)	319,732	51,558	371,290
Restricted Cash and Investments (Notes 2 and 5)	49,473	60,617	110,090
Deposit (Note 10)	14,387	-	14,387
Net Pension Asset (Note 8)	625	146	771
Capital Assets (Note 7):			
Land	20,200	23,253	43,453
Other Capital Assets, Net of Depreciation	2,003,116	3,515,346	5,518,462
TOTAL ASSETS	3,159,753	4,527,848	7,687,601
Deferred Outflows of Resources			
Pension Related Deferred Outflows of Resources (Notes 3 and 8)	8,609	2,009	10,618
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,168,362	\$ 4,529,857	\$ 7,698,219
Liabilities:			
Accounts Payable	\$ 154,048	\$ 119,257	\$ 273,305
Other Current Liabilities	6,463	39,459	45,922
Noncurrent Liabilities (Note 5):			
Due Within One Year	67,723	34,729	102,452
Due in More Than One Year	751,238	974,132	1,725,370
TOTAL LIABILITIES	979,472	1,167,577	2,147,049
Deferred Inflows of Resources:			
Other Deferred Inflows of Resources (Note 3)	114,721	-	114,721
Net Position:			
Net Investment in Capital Assets	1,215,813	2,532,582	3,748,395
Restricted for:			
Debt Service	173,863	60,617	234,480
Deposit - SDPAA (Note 10)	14,387	-	14,387
Library	62,610	-	62,610
Facilities and Promoting the City	277,537	-	277,537
Pension-SDRS (Note 8)	9,234	2,155	11,389
Unrestricted	320,725	766,926	1,087,651
TOTAL NET POSITION	2,074,169	3,362,280	5,436,449
TOTAL LIABILITIES AND NET POSITION	\$ 3,168,362	\$ 4,529,857	\$ 7,698,219

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

Functions/Programs	Expenses	--- Program Revenues ---			Net (Expense) Revenue and		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 179,801	\$ 13,001	\$ -	\$ -	\$ (166,800)	\$ -	\$ (166,800)
Public Safety	372,040	1,174	240,774	6,241	(123,851)	-	(123,851)
Public Works	299,747	75,827	-	217,673	(6,247)	-	(6,247)
Culture and Recreation	151,344	6,214	61,320	-	(83,810)	-	(83,810)
Conservation and Development	14,967	-	-	-	(14,967)	-	(14,967)
Miscellaneous	142,621	173,444	-	-	30,823	-	30,823
Interest on Long Term Debt	56,208	-	-	-	(56,208)	-	(56,208)
Total Governmental Activities	1,216,728	269,660	302,094	223,914	(421,060)	-	(421,060)
Business-Type Activities:							
Water	264,356	277,843	-	-	-	13,487	13,487
Sewer	171,620	228,121	-	-	-	56,501	56,501
Total Business-Type Activities	435,976	505,964	-	-	-	69,988	69,988
Total Primary Government	\$ 1,652,704	\$ 775,624	\$ 302,094	\$ 223,914	(421,060)	69,988	(351,072)
General Revenues:							
Taxes:							
Property Taxes					311,690	-	311,690
Sales Taxes					329,786	-	329,786
State Shared Revenue					26,050	-	26,050
Unrestricted Investment Earnings					(8,491)	(11,112)	(19,603)
Miscellaneous Revenue					11,803	-	11,803
Total General Revenue					670,838	(11,112)	659,726
Change in Net Position					249,778	58,876	308,654
Net Position, Beginning					1,824,391	3,303,404	5,127,795
Net Position, Ending					\$ 2,074,169	\$ 3,362,280	\$ 5,436,449

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>
Assets				
101 Cash and Investments (Note 2)	\$ 526,987	\$ 64,194	\$ 59,292	\$ 91,760
107 Restricted Cash and Investments (Notes 2 and 5)	14,718	-	-	-
108 Property Taxes Receivable	805	-	-	-
115 Accounts Receivable	63,182	-	-	-
121 Special Assessments Receivable - Current	-	-	-	-
123 Special Assessments Receivable - Deferred	-	-	-	-
128 Notes Receivable (Note 11)	-	-	-	126,471
131 Advance to Special Assessment Debt Service Fund (Note 12)	62,420	-	-	-
132 Due From State Government - Sales Taxes	11,332	-	379	-
154 Deposit - SDPAA (Note 10)	14,387	-	-	-
Total Assets	\$ 693,831	\$ 64,194	\$ 59,671	\$ 218,231
Liabilities, Deferred Inflows of Resources and Fund Balances				
<i>Liabilities</i>				
202 Accounts Payable	\$ 152,493	\$ 1,190	\$ 365	\$ -
208 Advance From General Fund (Note 12)	-	-	-	-
216 Accrued Wages Payable	3,819	394	-	-
220 Customer Deposits	2,250	-	-	-
Total Liabilities	158,562	1,584	365	-
<i>Deferred Inflows of Resources (Note 3)</i>				
245 Unavailable Revenue - Property Taxes	472	-	-	-
246 Unavailable Revenue - Special Assesments	-	-	-	-
247 Other Deferred Inflows of Resources	114,721	-	-	-
Total Deferred Inflows of Resources	115,193	-	-	-
<i>Fund Balances (Deficit):</i>				
<i>Nonspendable Fund Balances</i>				
263.02 SDPAA Deposit (Note 10)	14,387	-	-	-
<i>Restricted Fund Balances</i>				
264.01 Debt Service	14,718	-	-	-
264.04 Facilities and Promoting the City	-	-	59,306	218,231
264.05 Library	-	62,610	-	-
<i>Committed Fund Balances</i>				
265.04 Street/Sidewalk and Park Improvements	61,396	-	-	-
<i>Assigned Fund Balances</i>				
266.01 Subsequent Years Budget	167,606	-	-	-
267.00 Unassigned Fund Balances	161,969	-	-	-
Total Fund Balances	420,076	62,610	59,306	218,231
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)	\$ 693,831	\$ 64,194	\$ 59,671	\$ 218,231

The accompanying notes are an integral part of the financial statements.

Special Assessment Debt Service Fund	TIF #2 Debt Service Fund	Total Governmental Funds
\$ -	\$ 9,987	\$ 752,220
34,755	-	49,473
-	-	805
-	5,128	68,310
11,148	-	11,148
101,287	-	101,287
-	-	126,471
-	-	62,420
-	-	11,711
-	-	14,387
\$ 147,190	\$ 15,115	\$ 1,198,232
\$ -	\$ -	\$ 154,048
62,420	-	62,420
-	-	4,213
-	-	2,250
62,420	-	222,931
-	-	472
112,435	-	112,435
-	-	114,721
112,435	-	227,628
-	-	14,387
31,595	15,115	61,428
-	-	277,537
-	-	62,610
-	-	61,396
-	-	167,606
(59,260)	-	102,709
(27,665)	15,115	747,673
\$ 147,190	\$ 15,115	\$ 1,198,232

CITY OF WHITEWOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Total Fund Balances - Governmental Funds	\$ 747,673
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,023,316
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(818,961)
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	625
Assets, such as delinquent taxes receivable, special assessments receivable and due from governments, are not available to pay for current period expenditures and therefore are deferred in the funds.	112,907
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	8,609
Total Net Position - Governmental Funds	\$ 2,074,169

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Revenue	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>
<i>Taxes:</i>				
311 General Property Taxes	\$ 264,526	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	308,895	-	20,891	-
319 Penalties and Interest on Delinquent Taxes	796	-	-	-
320 Licenses and Permits	13,001	-	-	-
<i>Intergovernmental Revenue:</i>				
330 Intergovernmental Revenue	-	61,320	-	-
334 State Grants	248,379	-	-	-
331 Federal Grants	197,605	-	-	-
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	2,415	-	-	-
335.03 Liquor Tax Reversion	4,787	-	-	-
335.04 Motor Vehicle Licenses (5%)	10,675	-	-	-
335.08 Local Government Highway and Bridge Fund	12,737	-	-	-
335.20 Other	18,848	-	-	-
<i>Charges for Goods and Services:</i>				
344 Sanitation	51,069	-	-	-
345 Health	204	-	-	-
346 Culture and Recreation	4,508	1,502	-	-
349 Other	1,346	-	-	-
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	1,108	-	-	-
359 Other	66	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings (Loss) on Deposits and Investments	(5,294)	(1,180)	(396)	(1,427)
363 Special Assessments	14,165	-	-	-
368 Liquor Operating Agreement Income	173,444	-	-	-
369 Miscellaneous Revenue	1,490	-	90	2,573
Total Revenue	1,324,770	61,642	20,585	1,146

Special Assessment Debt Service Fund	TIF #2 Debt Service Fund	Total Governmental Funds
\$ -	\$ 46,368	\$ 310,894
-	-	329,786
-	-	796
-	-	13,001
-	-	61,320
-	-	248,379
-	-	197,605
-	-	2,415
-	-	4,787
-	-	10,675
-	-	12,737
-	-	18,848
-	-	51,069
-	-	204
-	-	6,010
-	-	1,346
-	-	1,108
-	-	66
(194)	-	(8,491)
15,435	-	29,600
-	-	173,444
-	-	4,153
<u>15,241</u>	<u>46,368</u>	<u>1,469,752</u>

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	General Fund	Library Fund	Additional Sales Tax Fund	Economic Development Fund
Expenditures				
<i>General Government:</i>				
411 Legislative	74,893	-	-	-
412 Executive	5,167	-	-	-
414 Financial Administration	54,992	-	-	-
419 Other	34,388	-	-	-
<i>Public Safety:</i>				
421 Police	338,291	-	-	-
423 Protective Inspection	14,212	-	-	-
<i>Public Works:</i>				
431 Highway and Streets	194,357	-	-	-
432 Sanitation	48,445	-	-	-
<i>Culture and Recreation:</i>				
452 Parks	85,607	-	-	-
455 Library	-	62,604	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	-	-	7,877	-
470 Debt Service	14,718	-	-	-
485 Capital Outlay	410,319	-	-	-
<i>Miscellaneous:</i>				
499 Liquor Operating Agreements	142,621	-	-	-
Total Expenditures	1,418,010	62,604	7,877	-
Other Financing Sources (Uses)				
391.04 Compensation for Loss	7,650	-	-	-
Total Other Financing Sources (Uses)	7,650	-	-	-
Net Change in Fund Balances (Deficits)	(85,590)	(962)	12,708	1,146
Fund Balances (Deficit) - December 31, 2019	505,666	63,572	46,598	217,085
Fund Balances (Deficit) - December 31, 2020	\$ 420,076	\$ 62,610	\$ 59,306	\$ 218,231

The accompanying notes are an integral part of the financial statements.

Special Assessment Debt Service Fund	TIF #2 Debt Service Fund	Total Governmental Funds
-	-	74,893
-	-	5,167
-	-	54,992
-	-	34,388
-	-	338,291
-	-	14,212
-	-	194,357
-	-	48,445
-	-	85,607
-	-	62,604
-	-	7,877
31,595	43,009	89,322
-	-	410,319
-	-	142,621
<u>31,595</u>	<u>43,009</u>	<u>1,563,095</u>
-	-	7,650
-	-	7,650
<u>(16,354)</u>	<u>3,359</u>	<u>(85,693)</u>
(11,311)	11,756	833,366
<u>\$ (27,665)</u>	<u>\$ 15,115</u>	<u>\$ 747,673</u>

CITY OF WHITEWOOD

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2020

Net change in fund balances - total governmental funds \$ (85,693)

Amounts reported for governmental activities in the Statement of Activities are different because:

Government funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense.

Capital Assets Purchases Capitalized	410,319
Depreciation Expense	(99,396)
	<hr/>
	310,923

Governmental funds report special assessments as revenue when available, but the Statement of Activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises. (10,896)

Changes in the pension related deferred outflows are direct components of pension asset and are not reflected in the governmental funds. 19,149

Pension expense reported in the Statement of Activities does not require the use of current financial resources and are not reported as expenditures in the governmental funds. (14,256)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 33,114

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. (2,563)

Change in Net Position of Governmental Activities \$ 249,778

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2020**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Assets			
Current Assets			
101 Cash and Investments (Note 2)	\$ 279,520	\$ 597,408	\$ 876,928
107 Restricted Cash and Investments (Notes 2 and 5)	47,933	12,684	60,617
115 Accounts Receivable	20,444	18,687	39,131
117 Unbilled Accounts Receivable	6,815	5,612	12,427
200 Net Pension Asset (Note 8)	87	59	146
Total Current Assets	354,799	634,450	989,249
Capital Assets (Note 7):			
160 Land	-	23,253	23,253
162 Buildings	664,728	845,641	1,510,369
163 Accumulated Depreciation - Buildings	(234,878)	(821,952)	(1,056,830)
164 Improvements Other Than Buildings	2,918,890	1,690,609	4,609,499
165 Accumulated Depreciation - Improvements Other than Buildings	(1,005,025)	(611,441)	(1,616,466)
166 Machinery and Equipment	95,045	149,637	244,682
167 Accumulated Depreciation - Machinery and Equipment	(95,045)	(80,863)	(175,908)
Total Noncurrent Assets	2,343,715	1,194,884	3,538,599
Total Assets	2,698,514	1,829,334	4,527,848
Deferred Outflows of Resources:			
196 Pension Related Deferred Outflows (Notes 3 and 8)	1,203	806	2,009
Total Assets and Deferred Outflows of Resources	\$ 2,699,717	\$ 1,830,140	\$ 4,529,857

The accompanying notes are an integral part of the financial statements.

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Liabilities and Net Position			
Current Liabilities			
202 Accounts Payable	\$ 2,438	\$ 116,819	\$ 119,257
205 Current Portion of Long-Term Debt (Note 5)	15,160	16,725	31,885
215 Accrued Interest Payable	2,252	-	2,252
216 Accrued Wages Payable	769	494	1,263
220 Customer Deposits	19,688	16,256	35,944
233 Accrued Leave Payable (Note 5)	1,559	1,285	2,844
Total Current Liabilities	41,866	151,579	193,445
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 5)	749,779	224,353	974,132
Total Liabilities	791,645	375,932	1,167,577
Net Position			
253.1 Net Investment in Capital Assets	1,578,776	953,806	2,532,582
253.2 Restricted for Debt Service	47,933	12,684	60,617
264 Restricted for Pension (Note 8)	1,290	865	2,155
252 Unrestricted Net Position	280,073	486,853	766,926
Total Net Position	1,908,072	1,454,208	3,362,280
Total Liabilities and Net Position	\$ 2,699,717	\$ 1,830,140	\$ 4,529,857

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Water Fund	Sewer Fund	Total Proprietary Funds
Operating Revenue			
380 Charges for Goods and Services (Note 5)	\$ 277,843	\$ 228,121	\$ 505,964
Total Operating Revenue	277,843	228,121	505,964
Operating Expenses			
410 Personal Services	89,273	77,625	166,898
420 Other Current Expense	62,487	40,351	102,838
457 Depreciation	78,710	45,587	124,297
Total Operating Expenses	230,470	163,563	394,033
Operating Income	47,373	64,558	111,931
Non-Operating Income (Expense)			
361 Loss on Deposits and Investments	(4,380)	(6,732)	(11,112)
470 Interest Expense and Fiscal Charges	(33,886)	(8,057)	(41,943)
Total Non-Operating Income (Expense)	(38,266)	(14,789)	(53,055)
Change in Net Position	9,107	49,769	58,876
Net Position - December 31, 2019	1,898,965	1,404,439	3,303,404
Net Position - December 31, 2020	\$ 1,908,072	\$ 1,454,208	\$ 3,362,280

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Water Fund	Sewer Fund	Total Proprietary Funds
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 276,702	\$ 225,820	\$ 502,522
Payments to Suppliers	(101,558)	74,179	(27,379)
Payments to Employees	(71,914)	(53,749)	(125,663)
Net Cash Flows Provided by Operating Activities	103,230	246,250	349,480
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(3,838)	(191,864)	(195,702)
Principal Paid on Capital Debt	(20,876)	(19,593)	(40,469)
Interest Paid	(33,886)	(8,057)	(41,943)
Net Cash Flows Used in Capital and Related Financing Activities	(58,600)	(219,514)	(278,114)
Cash Flows Used in Investing Activities:			
Loss on Deposit and Investments	(4,380)	(6,732)	(11,112)
Increase in Cash and Investments	40,250	20,004	60,254
Cash and Investments - December 31, 2019	287,203	590,088	877,291
Cash and Investments - December 31, 2020	\$ 327,453	\$ 610,092	\$ 937,545
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities			
Operating Income	\$ 47,373	\$ 64,558	\$ 111,931
<i>Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities:</i>			
Depreciation Expense	78,710	45,587	124,297
<i>Change in Assets and Liabilities:</i>			
Accounts Receivable and Unbilled Accounts Receivable	(1,271)	(2,504)	(3,775)
Pension Asset	159	107	266
Pension Related Deferred Outflows	18,433	24,596	43,029
Accounts Payable	(39,071)	114,530	75,459
Accrued Wages Payable	(1,532)	(1,022)	(2,554)
Customer Deposits	130	203	333
Accrued Leave Payable	299	195	494
Net Cash Flows Provided by Operating Activities	\$ 103,230	\$ 246,250	\$ 349,480

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

(1) Summary of Significant Accounting Policies

Reporting Entity

The reporting entity of the City of Whitewood (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.

The City participates in a cooperative unit with Northern Hills Multi-Jurisdictional Drug Task Force. See Note 9 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

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. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

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, deferred inflows and outflows, 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 City or it meets the following criteria:

1. Total assets, liabilities, deferred inflows and outflows, 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.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued):

The funds of the City financial reporting entity are described below:

Governmental Funds:

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

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

Library Fund – to account for the fines and similar charges deposited into the library board bank account (SDCL 14-2-42). This fund is a major fund.

Additional Sales Tax Fund – to account for an additional one percent gross receipts tax which may be used only for acquisition of land, capital improvement, and promotion of the City. This fund is a major fund.

Economic Development Fund – to account for the CDBG monies received in 1991. The money is used to create revolving loans for economic development purposes. This fund is a major fund.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Special Assessment Debt Service Fund – to account for assessment payments from property owners which are used only for the payment of the Special Assessment debt principal, interest, and related cost. This fund is a major fund.

TIF #2 Debt Service Fund – TIF funds are Tax Increment Financing Districts allowed by SDCL 11-9-24 to account for the proceeds of incremental property taxes, restricted for the payment of principal and interest on debt issued to finance a public improvement. Separate accounts are maintained for TIF District #2 revenues and expenditures. This 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 (expenses, including depreciation) 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, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Water Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City 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 City sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Continued)

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.

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 on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified-accrual basis of accounting are applied to governmental fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary fund types.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Whitewood, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2020, are property, sales tax and special assessments.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. There are no significant inter-fund utility charges.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Continued)

Interfund Eliminations

Government-wide Financial Statements

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in fund financial statements have been eliminated or reclassified, as follows: In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities column of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns.

Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as "Improvements Other Than Buildings."

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Government-wide Financial Statements: (Continued)

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 10,000	Straight-line	15-75 years
Buildings	\$ -0-	Straight-line	50 years
Machinery and Equipment	\$ 2,500	Straight-line	5-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of sales tax, tax increment financing, water, and sewer revenue bonds; state revolving loan funds; special assessment debt; and compensated absences.

In the fund financial statements, debt proceeds of governmental funds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund financial statements and the government-wide financial statements.

Program Revenues

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

1. Charges for services – 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 – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020

(1) Summary of Significant Accounting Policies (Continued)

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Cash and Cash Equivalents

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

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and is displayed in three components:

1. Net investment in capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions or enabling legislation.
3. Unrestricted net position – all other net positions that do not meet the definition of restricted or net investment in capital assets.

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.

Governmental Funds:

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 or because of legal or contractual constraints.

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

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

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 action of the Mayor and the City Council.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Concluded)

Equity Classifications (Continued)

The City classifies governmental fund balances as follows (Continued):

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories.

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 expenditures are made.

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

Proprietary Funds:

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

Inventory

The City maintains no significant amounts of inventory at December 31, 2020.

Subsequent Events

The City has assessed subsequent events through June 22, 2021, the date which the financial statements were available to be issued.

(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 summarized below:

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

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(2) Deposits and Investments (Continued)

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.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The certificates of deposit and money market fund are measured as a Level 2 recurring fair value measurements.

As of December 31, 2020, the City’s cash consisted only of checking and savings. The bank balances at December 31, 2020 are as follows:

	<u>Bank Balance</u>
Insured - FDIC	\$ 264,168
Uninsured, collateralized in accordance with SDCL 4-6A-3	661,546
Total Deposits	\$ 925,714

Investments of the City consist of the following:

	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value at 12/31/2020</u>
Money Market Fund	N/A	N/A	\$ 433,335
Certificates of Deposit (a)	Unrated	1-5 years	359,951
Total Investments			\$ 793,286

(a) The City is invested in negotiable participating certificates of deposit. The certificates of deposit of the City are in violation of state law as noted above.

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.

Custodial Credit Risk:

The risk that, in the event of a depository 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, none of the City’s deposits were exposed to custodial credit risk.

Concentration of Credit Risk:

The City places no limit on the amount that may be invested in any one issuer. More than five percent of the City’s certificates of deposit are in: Capital One Bank Glen VA CD (36 percent), and Sallie May Bank CD (9 percent).

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.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(2) Deposits and Investments (Concluded)

Assignment of Investment Income:

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy per ordinance is to credit all income from investments to the fund making the investment and then transferring the cash to the General Fund for spending purposes, except for the Library Fund.

(3) Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that apply to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period. Deferred outflows of resources consist of pension activity.

In addition to liabilities, the Governmental Funds Balance Sheet reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as inflow of resources until the applicable future period. Deferred inflows of resources consist of property taxes, federal grants, and special assessments.

(4) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. 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.

(5) Long-Term Debt

	Balance 12/31/2019	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2020	Due Within One Year
Primary Government:					
Governmental Activities:					
Sales Tax Revenue Bonds	\$ 94,301	\$ -	\$ 10,808	\$ 83,493	\$ 11,274
Special Assessment Bonds	247,717	-	22,306	225,411	23,143
Tax Increment Financing Obligations	498,599	-	-	498,599	21,848
Compensated Absences	8,895	6,714	4,151	11,458	11,458
Total Governmental Activities	849,512	6,714	37,265	818,961	67,723
Business-Type Activities:					
Water Revenue Bonds	779,457	-	14,518	764,939	15,154
Sewer Revenue Bonds	235,761	-	5,624	230,137	5,790
State Revolving Fund Loans	24,910	-	13,969	10,941	10,941
NRWA Loan	6,358	-	6,358	-	-
Compensated Absences	2,350	6,398	5,904	2,844	2,844
Total Business-Type Activities	1,048,836	6,398	46,373	1,008,861	34,729
Total Primary Government	\$ 1,898,348	\$ 13,112	\$ 83,638	\$ 1,827,822	\$ 102,452

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(5) Long-Term Debt (Continued)

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

Revenue Bonds

Rural Development Water Revenue Bonds, Series 2007; bears interest at 4.375 percent; due in monthly installments of \$4,028 through January 2048. Financed through the Water Fund. **\$ 764,939**

Rural Development Sewer Revenue Bonds, Series 2010; bears interest at 3.00 percent; due in monthly installments of \$1,057 through December 2047. Financed through the Sewer Fund. **230,137**

Sales Tax Revenue Bond, Series 2004; bears interest at 4.375 percent; due in monthly installments of \$1,227 through June 2026. Financed through the General Fund. **83,493**

Special Assessments:

Special Assessment Bond, Series 2010; bears interest at 3.75 percent; due in annual installments of \$31,595 through December 2030. Financed through the Debt Service Fund. **225,411**

State Revolving Fund Revenue Bonds:

State Revolving Fund Revenue Bonds, Series 2001; bears interest at 5.00 percent; due in quarterly installments of \$3,739 through July 2021. Financed through the Sewer Fund. **10,941**

Tax Increment Financing Obligations

TIF #2 maximum borrowings of \$1,500,000, including interest of 5.75 per annum, due in varying installments within 30 days of property tax collections from the County. Financed through the TIF Debt Service Fund. **498,599**

1,813,520

Compensated Absences

Governmental Funds **11,458**

Water Fund **1,559**

Sewer Fund **1,285**

Total Compensated Absences **14,302**

Total Long-Term Debt **\$ 1,827,822**

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(5) Long-Term Debt (Continued)

The annual requirements to amortize long-term debt outstanding as of December 31, 2020, except for compensated absences, are as follows:

	Revenue Bonds		Special Assessments		TIF Obligations	
	Interest	Principal	Interest	Principal	Interest	Principal
2021	\$ 43,512	\$ 32,218	\$ 8,452	\$ 23,143	\$ 24,315	\$ 21,848
2022	42,155	33,583	7,584	24,011	27,073	19,090
2023	40,003	34,997	6,683	24,912	25,960	20,204
2024	50,252	36,448	5,765	25,830	24,852	21,311
2025	49,252	38,009	4,779	26,816	23,538	22,625
2026-2030	167,443	160,702	9,884	100,699	96,351	134,466
2031-2035	135,330	169,770	-	-	52,269	178,549
2036-2040	97,327	207,773	-	-	5,476	80,506
2041-2045	50,584	254,516	-	-	-	-
2046-2048	4,434	110,553	-	-	-	-
Total	\$ 680,292	\$ 1,078,569	\$ 43,147	\$ 225,411	\$ 279,834	\$ 498,599

	State Revolving		Total	
	Interest	Principal	Interest	Principal
2021	\$ 274	\$ 10,941	\$ 76,553	\$ 88,150
2022	-	-	76,812	76,684
2023	-	-	72,646	80,113
2024	-	-	80,869	83,589
2025	-	-	77,569	87,450
2026-2030	-	-	273,678	395,867
2031-2035	-	-	187,599	348,319
2036-2040	-	-	102,803	288,279
2041-2045	-	-	50,584	254,516
2046-2048	-	-	4,434	110,553
Total	\$ 274	\$ 10,941	\$ 1,003,547	\$ 1,813,520

Tax Increment Financing Obligation

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established Tax Increment District which were constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such funds shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

During the year ended December 31, 2020, TIF related property tax revenues were \$46,368. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$43,009 for the year ended December 31, 2020.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(5) Long-Term Debt (Concluded)

Business-type Activities

The City has pledged future revenues of the Water Fund and Sewer Fund for the retirement of debt issuances associated with those funds through the maturity dates listed above. The City has pledged sales tax revenue of the General Fund for the retirement of debt issuances associated with the 2004 Sales Tax Revenue Bonds. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year.

Funds	Water Fund	Sewer Fund	General Fund
Current Year Principal and Interest	\$ 54,762	\$ 27,650	\$ 14,717
Pledged Revenue	277,843	228,121	308,895

Restricted Cash and Investments:

Debt covenants require \$106,930 of reserves. The City has restricted \$110,090 of cash and investments for debt service as of December 31, 2020.

(6) Interfund Transfers

There were no interfund transfers for the year ended December 31, 2020.

(7) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31 is as follows:

	Balance <u>12/31/2019</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2020</u>
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 20,200	\$ -	\$ -	\$ 20,200
Total Capital Assets, not being Depreciated	20,200	-	-	20,200
Capital Assets, being Depreciated:				
Buildings	245,458	-	-	245,458
Improvements Other Than Buildings	1,800,385	366,195	-	2,166,580
Machinery and Equipment	754,491	44,124	-	798,615
Total Capital Assets, being Depreciated	2,800,334	410,319	-	3,210,653
Less Accumulated Depreciation for:				
Buildings	117,918	5,753	-	123,671
Improvements Other Than Buildings	418,651	41,154	-	459,805
Machinery and Equipment	571,572	52,489	-	624,061
Total Accumulated Depreciation	1,108,141	99,396	-	1,207,537
Total Governmental Activities Capital Assets, being Depreciated, Net	1,692,193	310,923	-	2,003,116
Total Governmental Capital Assets, Net	\$ 1,712,393	\$ 310,923	\$ -	\$ 2,023,316

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(7) Changes in Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Public Works	\$ 54,771
General Government	10,744
Culture and Recreation	3,847
Public Safety	22,944
Conservation and Development	7,090
Total Depreciation Expense - Governmental	\$ 99,396

	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020
<i>Business-type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 23,253	\$ -	\$ -	\$ 23,253
Total Capital Assets, not being Depreciated	23,253	-	-	23,253
Capital Assets, being Depreciated:				
Buildings	1,510,369	-	-	1,510,369
Improvements Other Than Buildings	4,491,000	118,499	-	4,609,499
Machinery and Equipment	167,479	77,203	-	244,682
Total Capital Assets, being Depreciated	6,168,848	195,702	-	6,364,550
Less Accumulated Depreciation for:				
Buildings	1,038,798	18,032	-	1,056,830
Improvements Other Than Buildings	1,522,469	93,997	-	1,616,466
Machinery and Equipment	163,640	12,268	-	175,908
Total Accumulated Depreciation	2,724,907	124,297	-	2,849,204
Total Business-type Activities Capital Assets, being Depreciated, Net	3,443,941	71,405	-	3,515,346
Total Business-type Capital Assets, Net	\$ 3,467,194	\$ 71,405	\$ -	\$ 3,538,599

Depreciation expense was charged to functions as follows:

Water	\$ 78,710
Sewer	45,587
Total Depreciation Expense - Business-type	\$ 124,297

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2020

(8) Pension Plan

All employees, working more than 20 hours per week during the year, participate in the 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 survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.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 members, and Class C Cement Plant Retirement fund members.

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

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

Legislation enacted in 2017 established the current Cost-of-Living Adjustment (COLA) process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%
- If the fair value of assets is greater or equal to 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.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(8) Pension Plan (Continued)

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2020, 2019, and 2018 were **\$23,619**, \$23,635, and \$23,608, respectively, equal to the required contributions each year.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2020, SDRS is 100.04 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of June 30, 2020 and reported by the City as of December 31, 2020, are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 1,770,189	\$ 413,204	\$ 2,183,393
Less: Proportionate Share of Total Pension Asset	(1,769,564)	(413,058)	(2,182,622)
Proportionate Share of Net Pension Asset	\$ 625	\$ 146	\$ 771

At December 31, 2020, the City reported an asset of \$771 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2020 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the City's proportion was 0.0177550 percent, which is a decrease of .0011 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the City recognized pension expense of \$62,021. At December 31, 2020, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 2,950	\$ -
Changes in Assumption	(75,334)	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	71,066	-
City Contributions Subsequent to the Measurement Date	11,936	-
Total	\$ 10,618	\$ -

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(8) Pension Plan (Continued)

Deferred outflow of resources includes \$11,936 resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2021	\$	(8,900)
2022		(6,863)
2023		1,084
2024		13,361
	<u>\$</u>	<u>(1,318)</u>

Actuarial Assumptions:

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

Actuarial Assumptions (Continued):

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

Mortality rates were based on 97 percent of the RP-2014 Mortality Table, adjusted to 2006 and 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, 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 July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 (see the discussion of the pension 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%
	<u>100.0%</u>	

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(8) Pension Plan (Concluded)

Discount Rate:

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

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

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

	1% Decrease	Current Discount Rate	1% Increase
City’s Proportionate Share of the Net Pension (Asset)/Liability	\$ 299,134	\$ (771)	\$ (246,088)

Pension Plan Fiduciary Net Position:

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

(9) Joint Venture

The City participates in a joint venture, known as the Northern Hills Multi-Jurisdictional Drug Task Force, formed for the purpose of implementing and improving state and local drug law enforcement.

The members of the joint venture, each with 10 percent participation, are as follows:

- | | |
|-----------------|--------------------|
| Butte County | Newell City |
| Lawrence County | Deadwood City |
| Meade County | Belle Fourche City |
| Spearfish City | Lead City |
| Sturgis City | Whitewood City |

The joint venture’s governing board is composed of 10 representatives, who are the sheriffs from each county and the police chief for each city. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The City retains no equity in the net position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Lawrence County Sheriff’s Office.

CITY OF WHITEWOOD

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(10) Risk Management

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

Employee Health Insurance:

The City carries health insurance coverage from a commercial provider. The coverage includes a \$2,000,000 lifetime maximum payment per person. The City pays a monthly premium to provide health insurance coverage for its employees.

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

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local 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 provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City’s responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium to the pool to provide liability coverage detailed below, under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for police, fire, and vehicles.

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

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

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

CITY OF WHITEWOOD

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(10) Risk Management (Continued)

Liability Insurance (Continued):

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

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

As of December 31, 2020, the City's balance available to be refunded per the SDPAA was **\$14,387**, which was an increase of \$241 from the previous year. The change in the amount available for refund was accounted for as a decrease in insurance expenditures.

The City carries a \$2,000 deductible for the police and fire coverage and \$100 to \$250 deductible for the vehicle coverage.

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

Worker'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 during the past three years.

Unemployment Benefits:

The City pays for unemployment benefits as incurred.

CITY OF WHITEWOOD

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2020**

(11) Loan and Note Receivable

Loans and Notes receivable are revolving loans the City makes to promote urban development. The following is a summary of the loans and notes receivable at December 31, 2020:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
West River Foundation Whitewood Creek	Unsecured	0%	N/A	\$ 40,000
Chiropractic Chillar Haus Bed and Breakfast	All assets	3%	January 2031	38,151
Whitewood Economic Development Organization	All assets	3%	December 2023	9,663
			March 2025	38,657
				\$ 126,471

(12) Interfund Activity

The Special Assessment Debt Service Fund borrowed **\$62,420** from the General Fund for operations at December 31, 2020.

(13) Current Operations

The City has been impacted by the effects of the world-wide coronavirus pandemic. The City is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of the issuance of these financial statements, the full impact to the City's financial position is not known.

OTHER REPORTS



810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

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

City Council
City of Whitewood
Whitewood, 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 financial statements of the governmental activities, the business-type activities, and each major fund of the **City of Whitewood** (the City) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 22, 2021.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings, as #2020-001 and #2020-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings as #2020-003 and #2020-004 to be significant deficiencies.

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 one instance of noncompliance or other matters which is described in the Schedule of Findings as #2020-004 that is required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. 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 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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

June 22, 2021

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS
DECEMBER 31, 2020**

Current Year Audit Findings and Recommendations

Material Weaknesses

Finding No. 2020-001: Financial Statement Preparation

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do this with cities of your size.

Criteria and Effect: It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, we have answered any questions they might have, and we have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: See City's Corrective Action Plan.

Finding No. 2020-002: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed several audit adjustments. Adjustments included rolling forward fund balances, adjusting capital assets and depreciation expense, recording net pension asset and related activity, recording deferred revenue, and various reclassification entries.

Criteria and Effect: These adjustments were not identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Recommendation: We recommend the City's operations be continually reviewed for potential changes in the accounting processes so that the appropriate journal entries can be made throughout the year. The balance sheet accounts should be adjusted to actual at year end.

Response/Corrective Action Plan: See City's Corrective Action Plan.

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS (CONTINUED)
DECEMBER 31, 2020**

Current Year Audit Findings and Recommendations (Continued)

Significant Deficiencies

Finding No. 2020-003: Segregation of Duties

Condition and Cause: The City Finance Office lacks adequate segregation of duties over the cash receipts and disbursements processes. This is not uncommon for a finance office with only one or two employees.

Criteria and Effect: Lack of adequate segregation of duties exists and could result in misappropriated cash receipts or disbursements.

Recommendation: We recommend a member of the City Council continue to review the bank statements, including cancelled check copies, and adjustments to customer accounts, in detail, to mitigate the risk of misappropriated cash receipts and disbursements. The Mayor and Finance Committee should meet quarterly to review budget to actual expense reports for any unusual overages/underages.

Response/Corrective Action Plan: See City's Corrective Action Plan.

Finding No. 2020-004: Certificates of Deposit

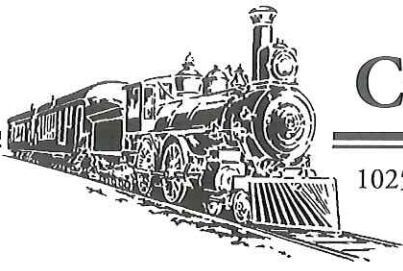
Condition and Cause: The City is invested in participating and negotiable certificates of deposit.

Criteria and Effect: South Dakota Codified Law 4-5-6 indicates the types of investments that the City may invest public funds. Based on 4-5-6, the City is in violation of State law.

Recommendation: We recommend that the City re-evaluate their investment policy and invest these funds in investments allowed by SDCL 4-5-6.

Response/Corrective Action Plan: See City's Corrective Action Plan

MANAGEMENT RESPONSE



City of Whitewood

1025 Meade St., Whitewood, SD 57793 • 605-269-2247 • Fax 605-269-2499
www.whitewood.govoffice.com • whitewood@rushmore.com

-45-

CITY OF WHITEWOOD

SCHEDULE OF PRIOR FINDINGS DECEMBER 31, 2020

The City of Whitewood respectfully submits the following summary schedule of prior audit findings from the December 31, 2019 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2019 Schedule of Findings

Finding No. 2019-001: Financial Statement Preparation

Status: It is more cost effective for the City to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as part of the annual audit process. The City has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2020, see Corrective Action Plan.

Finding No. 2019-002: Audit Adjustments

The City made efforts to record all year-end entries, but several audit adjustments were made.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The finding is altered based on specific audit adjustments each year, and is repeated in the Schedule of Findings. See Corrective Action Plan.

Finding No. 2019-003: Segregation of Duties

The City has implemented the recommendations as mitigating controls, but continues to have a lack of adequate segregation of duties as a result of the size of the Finance Office and has accepted the risk involved.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the segregation of duties finding, it will be repeated in 2020. See Corrective Action Plan.

Finding No. 2019-004: Certificates of Deposit and Budgetary Overdrafts

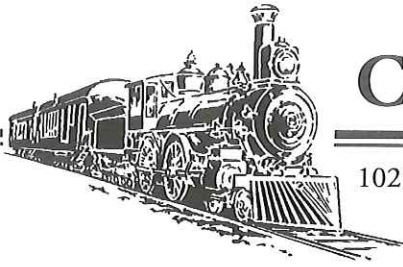
- a. The City was invested in participating and negotiable certificates of deposit which is in violation of South Dakota Codified Law 4-5-6.
- b. The City had budgetary overdrafts in the general fund in the financial administration, police, sanitation, and parks departments.

Initial Year Report: Originally issued in 2016, revised in 2019.

Reasons for Recurrence and Corrective Action Plan: a. The City transferred all investments to a local branch of an investment advisor in 2019. As the certificates of deposit are not through a local bank or guaranteed by the United States government, the City is in violation of South Dakota Codified Law 4-5-6.

b. This comment is not repeated in the current year.

THE CITY OF WHITEWOOD IS AN EQUAL OPPORTUNITY PROVIDER AND EMPLOYER



City of Whitewood

1025 Meade St., Whitewood, SD 57793 • 605-269-2247 • Fax 605-269-2499
www.whitewood.govoffice.com • whitewood@rushmore.com

-46-

CITY OF WHITEWOOD

CORRECTIVE ACTION PLAN DECEMBER 31, 2020

Finding No. 2020-001: Financial Statement Preparation

The City has accepted the risk associated with Finding #2020-001 regarding the preparation of the financial statements and will continue to have the independent auditor prepare the annual financial statements. For future audits, Finance Officer Cory Heckenlaible will continue to monitor the financial statement preparation and determine if any modification is necessary.

Finding No. 2020-002: Audit Adjustments

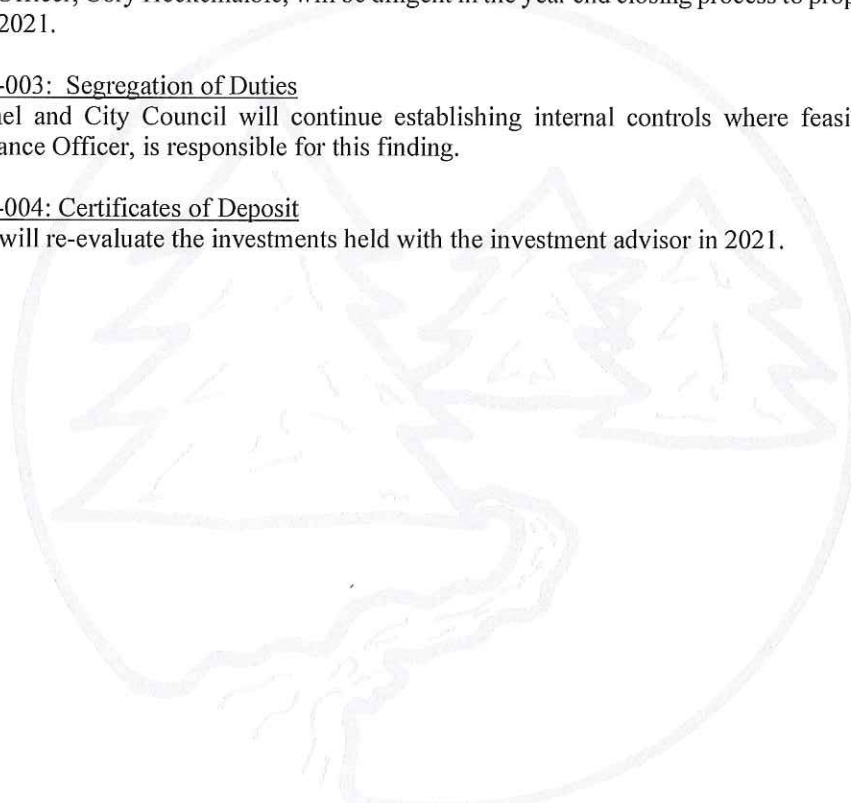
The City Finance Officer, Cory Heckenlaible, will be diligent in the year end closing process to properly adjust balance sheet accounts in 2021.

Finding No. 2020-003: Segregation of Duties

The City personnel and City Council will continue establishing internal controls where feasible in 2021. Cory Heckenlaible, Finance Officer, is responsible for this finding.

Finding No. 2020-004: Certificates of Deposit

The City Council will re-evaluate the investments held with the investment advisor in 2021.



THE CITY OF WHITEWOOD IS AN EQUAL OPPORTUNITY PROVIDER AND EMPLOYER

In accordance with Federal law and U.S. Department of Agriculture policy, this institution is prohibited from discriminating on the basis of race, color, national origin, age, disability, religion, sex, and familial status. (Not all prohibited bases apply to all programs.)
To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).