

CITY OF HARTFORD
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2019

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**CITY OF HARTFORD
MUNICIPAL OFFICIALS
DECEMBER 31, 2019**

Mayor

Jeremy Menning

Governing Board

Brittany Glanzer

Arden Jones

Travis Kuehl

Mark Monahan

Mark Brenneman

Scott Nelson

Finance Officer

Karen Wilber

City Administrator

Teresa Sidel

Attorney

Larry Nelson

**CITY OF HARTFORD
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet - Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities	10
Statement of Net Position - Proprietary Funds	11
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	12
Statement of Cash Flows - Proprietary Funds	13
Notes to the Financial Statements	14
Required Supplementary Information	
Budgetary Comparison Schedules:	
General Fund	33
Notes to the Required Supplementary Information-Budgetary	35
Schedule of the City's Proportionate Share of the Net Pension Liability (Asset)	36
Schedule of the City's Contributions	37
Notes to the Required Supplementary Information-Pension	38
Supplementary Information:	
Combining Balance Sheet - Nonmajor Governmental Funds	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances of Nonmajor Governmental Funds	40
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>	41
Schedule of Prior and Current Audit Findings	43
Corrective Action Plan	44

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Hartford
Minnehaha County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hartford, South Dakota, as of December 31, 2019 and for the year then ended, 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

The City's 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 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 of 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, each major fund and the aggregate remaining fund information of the City of Hartford as of December 31, 2019 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and the Pension Schedules listed in the Table of Contents be presented to supplement the basic financial statements. Such 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City has omitted the Management's Discussion and Analysis (MD&A) 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Nonmajor Fund Financial Statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2020, on our consideration of the City of Hartford'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 City's internal control over financial reporting and compliance.

Quam, Berglin & Post P.C.

Quam, Berglin & Post, P.C.
Certified Public Accountants

September 16, 2020

**CITY OF HARTFORD
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 1,864,727.44	\$ 1,793,843.45	\$ 3,658,570.89
Investments-Certificate of Deposit		27,300.04	27,300.04
Taxes Receivable	38,535.88		38,535.88
Accounts Receivable, Net	1,934.09	99,604.18	101,538.27
Due From Government	96,879.03		96,879.03
Inventory	63,377.42	155,127.00	218,504.42
Restricted Assets:			
Restricted Deposits	29,264.00	61,320.08	90,584.08
Noncurrent Assets:			
Special Assessment Receivable	4,249.08		4,249.08
Net Pension Asset	2,386.99		2,386.99
Capital Assets:			
Land and Construction in Progress	8,094,678.63	516,851.26	8,611,529.89
Other Capital Assets, Net of Depreciation	4,178,424.06	2,935,354.12	7,113,778.18
TOTAL ASSETS	14,374,456.62	5,589,400.13	19,963,856.75
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Connection Fee		641,743.00	641,743.00
Pension Related Deferred Outflows	108,566.60		108,566.60
TOTAL DEFERRED OUTFLOWS OF RESOURCES	108,566.60	641,743.00	750,309.60
LIABILITIES:			
Accounts Payable	47,308.17	25,415.16	72,723.33
Accrued Wages Payable	4,342.92	331.52	4,674.44
Retainage Payable	82,822.50		82,822.50
Construction Contracts Payable	268,199.33	11,615.65	279,814.98
Customer Deposits Payable		75,258.00	75,258.00
Special Assessments Collected in Advance	33,249.47		33,249.47
Noncurrent Liabilities:			
Due Within One Year	357,432.24	297,545.30	654,977.54
Due in More than One Year	2,789,925.31	2,449,492.55	5,239,417.86
TOTAL LIABILITIES	3,583,279.94	2,859,658.18	6,442,938.12
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	58,974.35		58,974.35
NET POSITION:			
Net Investment in Capital Assets	9,194,646.78	738,042.01	9,932,688.79
Restricted for:			
Debt Services	4,249.08		4,249.08
Capital Improvement	152,929.45		152,929.45
Community Development	67,388.62		67,388.62
Cumulative Reserve - SDPAA	29,264.00		29,264.00
SDRS Pension Purposes	51,979.24		51,979.24
Unrestricted	1,340,311.76	2,633,442.94	3,973,754.70
TOTAL NET POSITION	\$ 10,840,768.93	\$ 3,371,484.95	\$ 14,212,253.88

The attached notes are an integral part of these financial statements.

**CITY OF HARTFORD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating		Governmental Activities	Business-Type Activities
			Grants and Contributions			
Primary Government:						
Governmental Activities:						
General Government	\$ 684,475.84	\$ 80,205.02	\$ 2,207.89	\$ (602,062.93)	\$	\$ (602,062.93)
Public Safety	456,356.59	8,431.17	3,200.00	(444,725.42)		(444,725.42)
Public Works	968,965.86	51,065.37		(917,900.49)		(917,900.49)
Health and Welfare	2,398.83			(2,398.83)		(2,398.83)
Culture and Recreation	434,942.21	30,080.66		(404,861.55)		(404,861.55)
Conservation & Development	202,499.53			(202,499.53)		(202,499.53)
*Interest on Long-Term Debt	79,867.67			(79,867.67)		(79,867.67)
Total Governmental Activities	2,829,506.53	169,782.22	5,407.89	(2,654,316.42)		(2,654,316.42)
Business-Type Activities:						
Water	423,703.61	646,268.35			222,564.74	222,564.74
Sewer	471,275.27	557,331.29			86,056.02	86,056.02
Total Business-Type Activities	894,978.88	1,203,599.64			308,620.76	308,620.76
Total Primary Government	\$ 3,724,485.41	\$ 1,373,381.86	\$ 5,407.89	(2,654,316.42)		(2,345,695.66)
General Revenues:						
Taxes:						
Property Taxes				1,262,477.73		1,262,477.73
Sales and Use Taxes				1,128,187.05		1,128,187.05
State Shared Revenues				50,998.93		50,998.93
Unrestricted Investment Earnings				3,480.36	2,632.13	6,112.49
Miscellaneous Revenue				865,981.49		865,981.49
Transfers				472,000.00	(472,000.00)	
Total General Revenues and Transfers				3,783,125.56	(469,367.87)	3,313,757.69
Change in Net Position				1,128,809.14	(160,747.11)	968,062.03
Net Position - Beginning				9,587,265.86	3,532,232.06	13,119,497.92
Prior Period Adjustment				124,693.93		124,693.93
Adjusted Net Position - Beginning				9,711,959.79	3,532,232.06	13,244,191.85
Net Position - Ending				\$ 10,840,768.93	\$ 3,371,484.95	\$ 14,212,253.88

*The Municipality does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The attached notes are an integral part of these financial statements.

**CITY OF HARTFORD
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

	Major Funds			Nonmajor	Total Governmental Funds
	General Fund	Mickelson Road Fund	Vandemark Street Fund	Other Governmental Funds	
ASSETS:					
Cash and Cash Equivalents	\$ 1,649,647.11	\$	\$ 26,839.46	\$ 188,240.87	\$ 1,864,727.44
Taxes Receivable - Delinquent	38,535.88				38,535.88
Accounts Receivable, Net	1,934.09				1,934.09
Special Assessments Receivable - Delinquent				4,249.08	4,249.08
Due From Other Funds	49,018.96				49,018.96
Due From Government	90,962.43			5,916.60	96,879.03
Inventory	63,377.42				63,377.42
Restricted Deposits	29,264.00				29,264.00
TOTAL ASSETS	\$ 1,922,739.89	\$	\$ 26,839.46	\$ 198,406.55	\$ 2,147,985.90
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 41,025.19	\$ 5,604.12	\$ 678.86	\$	\$ 47,308.17
Construction Payable		82,822.50			82,822.50
Contracts Payable - Retainage Payable	23,736.19	244,463.14			268,199.33
Due to Other Funds		49,018.96			49,018.96
Special Assessments Collected in Advance	33,249.47				33,249.47
Accrued Wages Payable	4,342.92				4,342.92
Total Liabilities	102,353.77	381,908.72	678.86		484,941.35
Deferred Inflows of Resources:					
Unavailable Revenue - Property Taxes	38,535.88				38,535.88
Unavailable Revenue - Special Assessments				4,249.08	4,249.08
Total Deferred Inflows of Resources	38,535.88			4,249.08	42,784.96
Fund Balances:					
Nonspendable	92,641.42				92,641.42
Restricted	43,886.94		26,160.60	194,157.47	264,205.01
Unassigned	1,645,321.88	(381,908.72)			1,263,413.16
Total Fund Balances	1,781,850.24	(381,908.72)	26,160.60	194,157.47	1,620,259.59
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,922,739.89	\$ 0.00	\$ 26,839.46	\$ 198,406.55	\$ 2,147,985.90

The attached notes are an integral part of these financial statements.

**CITY OF HARTFORD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2019**

Total Fund Balances - Governmental Funds \$ 1,620,259.59

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.

Cost of Assets:	\$ 17,429,137.92	
(Less) Accumulated Depreciation	<u>(5,156,035.23)</u>	12,273,102.69

Long-term liabilities, including loans payable and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.

Loans Payable	(3,078,455.91)	
Accrued Leave Payable	<u>(68,901.64)</u>	(3,147,357.55)

Assets such as taxes receivable (delinquent), special assessments receivable (current, delinquent and deferred) and certain notes receivables are not available to pay for current period expenditures and therefore are deferred in the funds but are revenue in the government-wide financial statements.

42,784.96

Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.

2,386.99

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.

108,566.60

Pension related deferred inflows are components of pension liability and therefore are not reported in the funds.

(58,974.35)

Net Position - Governmental Funds \$ 10,840,768.93

The attached notes are an integral part of these financial statements.

CITY OF HARTFORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Major Funds			Nonmajor	Total Governmental Funds
	General Fund	Mickelson Road Fund	Vandemark Street Fund	Other Governmental Funds	
Revenues:					
Taxes:					
General Property Taxes	\$ 1,241,923.80			\$	\$ 1,241,923.80
General Sales and Use Taxes	958,529.98			119,915.58	1,078,445.56
Business Sales Tax Revenue	22,289.99				22,289.99
Amusement Taxes	276.00				276.00
Excise Tax	27,451.50				27,451.50
Licenses and Permits	80,205.02				80,205.02
Intergovernmental Revenue:					
State Grants	3,200.00				3,200.00
State Shared Revenue:					
Bank Franchise Tax	34,484.60				34,484.60
Liquor Tax Reversion	16,514.33				16,514.33
Motor Vehicle Licenses (5%)	22,912.06				22,912.06
County Shared Revenue:					
County Highway and Bridge Tax	24,302.63				24,302.63
County Wheel Tax	3,850.60				3,850.60
Other Intergovernmental Revenues	30,561.88				30,561.88
Charge for Services:					
Culture and Recreation	30,080.66				30,080.66
Fines and Forfeits:					
Court Fines and Costs	8,431.17				8,431.17
Miscellaneous Revenue:					
Investment Earnings	3,204.68			275.68	3,480.36
Contributions and Donations	2,207.89				2,207.89
Other	16,256.45	822,482.66	2.48		838,741.59
Total Revenue	<u>2,526,683.24</u>	<u>822,482.66</u>	<u>2.48</u>	<u>120,191.26</u>	<u>3,469,359.64</u>

The attached notes are an integral part of these financial statements.

CITY OF HARTFORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Major Funds			Nonmajor	Total Governmental Funds
	General Fund	Mickelson Road Fund	Vandemark Street Fund	Other Governmental Funds	
Expenditures:					
General Government:					
Legislative	24,894.08				24,894.08
Executive	5,176.48				5,176.48
Elections	29.40				29.40
Financial Administration	405,510.68				405,510.68
Other	58,673.70				58,673.70
Total General Government	494,284.34				494,284.34
Public Safety:					
Police	248,626.54				248,626.54
Fire	175,000.00				175,000.00
Total Public Safety	423,626.54				423,626.54
Public Works:					
Highways and Streets	424,367.25	324,486.26	5,605.00		754,458.51
Transit	7,759.20				7,759.20
Total Public Works	432,126.45	324,486.26	5,605.00		762,217.71
Health and Welfare:					
Professional Services	1,943.95				1,943.95
Supplies	454.88				454.88
Total Health and Welfare	2,398.83				2,398.83
Culture and Recreation:					
Recreation	181,868.89				181,868.89
Parks	192,788.26				192,788.26
Libraries	7,100.00				7,100.00
Total Culture and Recreation	381,757.15				381,757.15
Conservation and Development:					
Economic Development and Assistance	105,009.53			97,490.00	202,499.53
Debt Service	283,061.96		17,227.56		300,289.52
Capital Outlay	180,154.26	1,552,182.08	1,540,861.32	22,794.52	3,295,992.18
Total Expenditures	2,302,419.06	1,876,668.34	1,563,693.88	120,284.52	5,863,065.80
Excess of Revenue Over (Under) Expenditures	224,264.18	(1,054,185.68)	(1,563,691.40)	(93.26)	(2,393,706.16)
Other Financing Sources (Uses):					
Transfer In		1,125,000.00	64,852.00		1,189,852.00
Transfer (Out)	(717,852.00)				(717,852.00)
Sale of Municipal Property	970.32				970.32
Proceeds from Long Term Debt			1,525,000.00		1,525,000.00
Total Other Financing Sources (Uses)	(716,881.68)	1,125,000.00	1,589,852.00		1,997,970.32
Net Change in Fund Balances	(492,617.50)	70,814.32	26,160.60	(93.26)	(395,735.84)
Fund Balance - Beginning	2,274,467.74	(452,723.04)		194,250.73	2,015,995.43
FUND BALANCE - ENDING	\$ 1,781,850.24	\$ (381,908.72)	\$ 26,160.60	\$ 194,157.47	\$ 1,620,259.59

The attached notes are an integral part of these financial statements.

**CITY OF HARTFORD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balances - Total Governmental Funds \$ (395,735.84)

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

Governmental funds report capital outlays as expenditures, however, in the
Statement of Activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which capital outlays exceeded depreciation expense in the
current period. 2,886,872.65

The issuance of long-term debt is an other financing source in the fund
statements but an increase in long-term liabilities on the government-wide
statements.
Sales Tax Revenue Bond (1,525,000.00)

Governmental funds do not reflect the change in accrued leave, but the
statement of activities reflects the change in accrued leave through
expenditures. (10,370.90)

Repayment of debt is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the Statement of Net Position. 220,421.85

Governmental funds report property taxes and special assessments as
revenue when cash is received, but the Statement of Activities includes
these items as revenues when earned. 20,278.01

In the statement of activities, gains and losses on disposal of assets is
reported, whereas in the governmental funds, the proceeds and expenses
from the disposal of fixed assets is reflected. The net amount of gains and
losses is: (4,292.30)

Changes in the pension related deferred outflows/inflows are direct
components of pension liability (asset) and are not reflected in the
governmental funds. (63,364.33)

Change in Net Position of Governmental Activities \$ 1,128,809.14

The attached notes are an integral part of these financial statements.

**CITY OF HARTFORD
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019**

	<u>Enterprise Funds</u>		
	<u>Major Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<u>ASSETS:</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,175,934.11	\$ 617,909.34	\$ 1,793,843.45
Investments-Certificate of Deposit	27,300.04		27,300.04
Accounts Receivable, Net	51,190.08	48,414.10	99,604.18
Utility Deposits	61,320.08		61,320.08
Inventory of Supplies	139,277.00	9,020.00	148,297.00
Inventory of Stores Purchased for Resale	6,830.00		6,830.00
Total Current Assets	<u>1,461,851.31</u>	<u>675,343.44</u>	<u>2,137,194.75</u>
Noncurrent Assets:			
Capital Assets:			
Land	127,385.00	311,897.00	439,282.00
Buildings	9,837.44	559,837.43	569,674.87
Improvement other than Buildings	4,117,485.76	4,663,383.19	8,780,868.95
Machinery and Equipment	182,765.33	254,115.87	436,881.20
Construction Work in Progress		77,569.26	77,569.26
Less: Accumulated Depreciation	<u>(2,762,715.25)</u>	<u>(4,089,355.65)</u>	<u>(6,852,070.90)</u>
Total Noncurrent Assets	<u>1,674,758.28</u>	<u>1,777,447.10</u>	<u>3,452,205.38</u>
TOTAL ASSETS	<u>3,136,609.59</u>	<u>2,452,790.54</u>	<u>5,589,400.13</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Connection Fee	<u>641,743.00</u>		<u>641,743.00</u>
<u>LIABILITIES:</u>			
Current Liabilities:			
Accounts Payable	10,809.24	14,605.92	25,415.16
Contracts Payable--Retained Percentage		11,615.65	11,615.65
Accrued Wages Payable	165.76	165.76	331.52
Customer Deposits	75,258.00		75,258.00
Accrued Leave Payable - Current	16,437.24	16,437.24	32,874.48
Other Long-Term Debt - Current	112,719.18	151,951.64	264,670.82
Total Current Liabilities	<u>215,389.42</u>	<u>194,776.21</u>	<u>410,165.63</u>
Noncurrent Liabilities:			
Revenue Bonds Payable	<u>597,172.01</u>	<u>1,852,320.54</u>	<u>2,449,492.55</u>
Total Noncurrent Liabilities	<u>597,172.01</u>	<u>1,852,320.54</u>	<u>2,449,492.55</u>
TOTAL LIABILITIES	<u>812,561.43</u>	<u>2,047,096.75</u>	<u>2,859,658.18</u>
<u>NET POSITION:</u>			
Net Investment in Capital Assets	964,867.09	(226,825.08)	738,042.01
Unrestricted Net Position	<u>2,000,924.07</u>	<u>632,518.87</u>	<u>2,633,442.94</u>
TOTAL NET POSITION	<u>\$ 2,965,791.16</u>	<u>\$ 405,693.79</u>	<u>\$ 3,371,484.95</u>

The attached notes are an integral part of these financial statements.

CITY OF HARTFORD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Major Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	
<u>Operating Revenue:</u>			
Charges for Goods and Services (Revenues Securing Debt Issues)	\$ 635,318.35	\$ 548,396.48	\$ 1,183,714.83
Miscellaneous	10,950.00	8,934.81	19,884.81
Total Operating Revenue	<u>646,268.35</u>	<u>557,331.29</u>	<u>1,203,599.64</u>
<u>Operating Expenses:</u>			
Personal Services	61,097.19	61,772.95	122,870.14
Other Current Expense	64,095.03	99,268.47	163,363.50
Amortization	103,990.00		103,990.00
Depreciation	168,606.89	250,679.12	419,286.01
Total Operating Expenses	<u>397,789.11</u>	<u>411,720.54</u>	<u>809,509.65</u>
Operating Income (Loss)	<u>248,479.24</u>	<u>145,610.75</u>	<u>394,089.99</u>
<u>Nonoperating Revenue (Expense):</u>			
Interest Income	2,632.13		2,632.13
Interest Expense and Fiscal Charges	(25,914.50)	(59,554.73)	(85,469.23)
Total Nonoperating Revenue (Expense)	<u>(23,282.37)</u>	<u>(59,554.73)</u>	<u>(82,837.10)</u>
Income (Loss) before Transfers	225,196.87	86,056.02	311,252.89
Transfers (Out)	(232,000.00)	(240,000.00)	(472,000.00)
Change in Net Position	(6,803.13)	(153,943.98)	(160,747.11)
Net Position - Beginning	<u>2,972,594.29</u>	<u>559,637.77</u>	<u>3,532,232.06</u>
NET POSITION - ENDING	<u>\$ 2,965,791.16</u>	<u>\$ 405,693.79</u>	<u>\$ 3,371,484.95</u>

The attached notes are an integral part of these financial statements.

**CITY OF HARTFORD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Major Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Cash Receipts from Customers	\$ 650,544.91	\$ 553,242.03	\$ 1,203,786.94
Cash Receipts from Interfund Services Provided	3,276.02	3,276.02	6,552.04
Cash Payments to Employees for Services	(59,782.55)	(60,458.31)	(120,240.86)
Cash Payments to Suppliers for Goods and Services	(193,783.88)	(90,762.96)	(284,546.84)
Net Cash Provided (Used) by Operating Activities	<u>400,254.50</u>	<u>405,296.78</u>	<u>805,551.28</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Transfers Out	(232,000.00)	(240,000.00)	(472,000.00)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(232,000.00)</u>	<u>(240,000.00)</u>	<u>(472,000.00)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Purchase of Capital Assets	(27,962.00)	(67,668.66)	(95,630.66)
Principal Paid on Capital Debt	(109,005.86)	(146,626.43)	(255,632.29)
Interest Paid on Capital Debt	(25,914.50)	(59,554.73)	(85,469.23)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(162,882.36)</u>	<u>(273,849.82)</u>	<u>(436,732.18)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Purchase of Investment Securities	(522.17)		(522.17)
Payments of Utility Deposits	(4,031.30)		(4,031.30)
Interest Earnings	2,632.13		2,632.13
Net Cash Provided (Used) by Investing Activities	<u>(1,921.34)</u>		<u>(1,921.34)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 3,450.80</u>	<u>\$ (108,553.04)</u>	<u>\$ (105,102.24)</u>
Cash and Cash Equivalents at Beginning of Year	\$ 1,172,483.31	\$ 726,462.38	\$ 1,898,945.69
Cash and Cash Equivalents at End of Year	<u>1,175,934.11</u>	<u>617,909.34</u>	<u>1,793,843.45</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 3,450.80</u>	<u>\$ (108,553.04)</u>	<u>\$ (105,102.24)</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>			
Operating Income (Loss)	\$ 248,479.24	\$ 145,610.75	\$ 394,089.99
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	168,606.89	250,679.12	419,286.01
Amortization Expense	103,990.00		103,990.00
Change in Assets and Liabilities:			
Receivables	1,594.58	(813.24)	781.34
Inventories	(130,145.00)	1,306.00	(128,839.00)
Accounts and Other Payables	456.15	7,199.51	7,655.66
Accrued Wages Payable	57.15	57.15	114.30
Accrued Leave Payable	1,257.49	1,257.49	2,514.98
Customer Deposits	5,958.00		5,958.00
Net Cash Provided (Used) by Operating Activities	<u>\$ 400,254.50</u>	<u>\$ 405,296.78</u>	<u>\$ 805,551.28</u>

The attached notes are an integral part of these financial statements.

CITY OF HARTFORD
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

a. Financial Reporting Entity:

The reporting entity of the City of Hartford 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.

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.

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

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

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

Governmental Funds:

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

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Additional Sales Tax Fund – A fund established by South Dakota Codified Law (SDCL) 10-52-2, to pay debt service on bonds and other costs of capital improvements and land acquisition. The fund is financed by a “Second Penny” retail sales tax collected prior to December 31, 2002. This is not a major fund.

“Second Penny” sales tax collected after December 31, 2002 is unrestricted; therefore, it is accounted for in the General Fund.

3rd Penny Sales Tax Fund- A fund established by SDCL 10-52A used to pay for promotion of the City. It is financed by a gross receipts tax on bars, restaurants and motels. This is not 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.

2007 Special Assessments Fund- To account for special assessment taxes which may be used only for the payment of the debt principal, interest, and related costs. This is not a major fund.

Capital Project Funds – Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

The Capital Project Funds maintained by the City during 2019 were the “Vandemark St. Fund”, “Mickelson Road Fund”, and the “Sports Complex Fund.” The purpose of these funds were to construct selected park and recreation improvements. The projects were funded in the years 2014-2019 by transfers from the General Fund. These are not major funds, except for the “Mickelson Road Fund” and “Vandemark St. Fund”, which were new funds in 2017 and 2019, respectively.

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 principle 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.

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.

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 funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental, business-type, and component unit 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 fund types 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 Hartford, the length of that cycle is 30 days. The revenues which were accrued at December 31, 2019, are taxes receivable, amounts due from other governments for grants, and other receivables due within 30 days.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

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.

d. Interfund Eliminations and Reclassifications:

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 the 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 columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

e. Deposits and Investments:

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

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

f. 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 normally are stationary in nature and normally can be preserved for 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 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 date donated. 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. The total December 31, 2019 balance of governmental activities and business-type capital assets are all valued at original cost.

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." For governmental activities capital assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

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.

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and Land Rights	All	NA	NA
Improvements other than Buildings	\$ 50,000	Straight Line	20-100 years
Buildings	25,000	Straight Line	15-50 years
Machinery and Equipment	5,000	Straight Line	4-20 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.

g. 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 consist of revenue bonds, special assessment bonds, state revolving loans, and compensated absences.

In the fund financial statements, debt proceeds 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, the same in the fund statements as in the government-wide statements.

h. Program Revenues:

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

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.

i. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred inflows

and deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position 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 an inflow of resources until the applicable future period.

j. 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, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

k. 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 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.

l. Equity Classifications:

Government-wide 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) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

m. Application of Net Position:

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

n. 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 City classifies governmental fund balances as follows:

- Non-spendable – 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 the City Council.
- **Unassigned** – Includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

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

A schedule of fund balances is provided as follows:

CITY OF HARTFORD
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2019

Fund Balances:	General Fund	Mickelson Road Fund	Vandemark Street Fund	Other Non-Major Governmental Funds	Total Governmental Funds
<i>Nonspendable:</i>					
Inventory	\$ 63,377.42	\$	\$	\$	\$ 63,377.42
SDPAA Insurance Pool	29,264.00				29,264.00
<i>Restricted for:</i>					
Capital Improvement	43,886.94		26,160.60	126,768.85	196,816.39
Community Development				67,388.62	67,388.62
<i>Unassigned</i>	<u>1,645,321.88</u>	<u>(381,908.72)</u>	<u></u>	<u></u>	<u>1,263,413.16</u>
Total Fund Balances	<u>\$ 1,781,850.24</u>	<u>\$ (381,908.72)</u>	<u>\$ 26,160.60</u>	<u>\$ 194,157.47</u>	<u>\$ 1,620,259.59</u>

o. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. City contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

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

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

Deposits – The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified

depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits City funds to be invested 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.

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.

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.

Concentration of Investment -The City places no limit on the amount that may be invested in any one issuer.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

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

3. Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year.

4. Inventory

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charges to expense as it is consumer. Material supply inventories of the governmental funds are off-set by a fund

balance “non-spendable” classification which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

5. Property Taxes

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

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

6. Changes In General Capital Assets

A summary of changes in capital assets for the year ended December 31, 2019 is as follows:

	<u>Balance 01/01/19</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/19</u>
Governmental Activities:				
Land **	\$ 1,057,349.00	\$ 69,548.33	\$ (5,770.00)	\$ 1,121,127.33
Construction in Progress**	<u>3,891,389.07</u>	<u>3,174,087.33</u>	<u>(91,925.10)</u>	<u>6,973,551.30</u>
Total Capital Assets, not being Depreciated	<u>4,948,738.07</u>	<u>3,243,635.66</u>	<u>(97,695.10)</u>	<u>8,094,678.63</u>
Capital Assets, being Depreciated:				
Building	458,246.41			458,246.41
Improvements, other than Building	7,371,758.96	91,925.10		7,463,684.06
Machinery and Equipment**	<u>1,377,676.41</u>	<u>56,481.52</u>	<u>(21,629.11)</u>	<u>1,412,528.82</u>
Total Capital Assets, being Depreciated	<u>9,207,681.78</u>	<u>148,406.62</u>	<u>(21,629.11)</u>	<u>9,334,459.29</u>
Less Accumulated Depreciation for:				
Buildings	290,990.37	9,350.43		300,340.80
Improvements, other than Buildings	3,511,419.92	339,050.51		3,850,470.43
Machinery and Equipment**	<u>963,487.23</u>	<u>60,718.59</u>	<u>(18,981.82)</u>	<u>1,005,224.00</u>
Total Accumulated Depreciation	<u>4,765,897.52</u>	<u>409,119.53</u>	<u>(18,981.82)</u>	<u>5,156,035.23</u>
Total Governmental Activities Capital Assets, being Depreciated, Net	<u>4,441,784.26</u>	<u>(260,712.91)</u>	<u>(8,417.29)</u>	<u>4,178,424.06</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 9,390,522.33</u>	<u>\$ 2,982,922.75</u>	<u>\$(106,112.39)</u>	<u>\$ 12,273,102.69</u>

**restated beginning balance

**As of 12/31/18, as previously reported, the beginning Total Governmental Activities Capital Assets, Net was \$9,265,828.40. Therefore, the beginning amounts stated above for 1/1/19 have been adjusted by \$124,693.93 for capital assets not previously reported. See note 13.

Depreciation expenses were charged to functions as follows:

General Government	\$ 126,827.17
Public Safety	32,730.05
Public Works	196,377.25
Culture and Recreation	<u>53,185.06</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 409,119.53</u>

Construction Work in Progress at December 31, 2019 is composed of the following:

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended through 12/31/19</u>	<u>Committed</u>
<u>Governmental Activities:</u>			
Mickelson Road Project	\$ 4,938,211.23	\$ 4,815,622.31	\$ 122,588.92
VandeMark Avenue	1,596,482.99	1,563,281.32	33,201.67
Sports Complex Grading	<u>594,647.67</u>	<u>594,647.67</u>	
Total Governmental Activities	<u>\$ 7,129,341.89</u>	<u>\$ 6,973,551.30</u>	<u>\$ 155,790.59</u>
<u>Business-Type Activities:</u>			
Sanitary Sewer Extension	\$ 66,970.00	\$ 40,182.00	\$ 26,788.00
Waste Water Treatment Facility	<u>72,373.00</u>	<u>37,387.26</u>	<u>34,985.74</u>
Total Business-Type Activities	<u>\$ 139,343.00</u>	<u>\$ 77,569.26</u>	<u>\$ 61,773.74</u>
Total Governmental and Business-Type Activities	<u>\$ 7,268,684.89</u>	<u>\$ 7,051,120.56</u>	<u>\$ 217,564.33</u>

	<u>Balance 1/1/2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2019</u>
Business-Type Activities:				
Capital Assets, not being Depreciated				
Land	\$ 439,282.00	\$	\$	\$ 439,282.00
Construction in Progress	<u>261,578.66</u>	<u>67,668.66</u>	<u>(251,678.06)</u>	<u>77,569.26</u>
Total Capital Assets, not being Depreciated	<u>700,860.66</u>	<u>67,668.66</u>	<u>(251,678.06)</u>	<u>516,851.26</u>
Capital Assets, being Depreciated:				
Buildings	569,674.87			569,674.87
Improvements Other than Building	8,529,190.89	251,678.06		8,780,868.95
Machinery and Equipment	<u>408,919.20</u>	<u>27,962.00</u>		<u>436,881.20</u>
Total	<u>9,507,784.96</u>	<u>279,640.06</u>		<u>9,787,425.02</u>
Less Accumulated Depreciation for:				
Buildings	305,888.33	11,393.50		317,281.83
Improvements Other than Building	5,963,977.03	376,458.47		6,340,435.50
Machinery and Equipment	<u>162,919.53</u>	<u>31,434.04</u>		<u>194,353.57</u>
Total Accumulated Depreciation	<u>6,432,784.89</u>	<u>419,286.01</u>		<u>6,852,070.90</u>
Total Business-Type Activities Capital Assets, being depreciated, net	<u>3,075,000.07</u>	<u>(139,645.95)</u>		<u>2,935,354.12</u>
Business-Type Activity, Capital Assets, net	<u>\$ 3,775,860.73</u>	<u>\$ (71,977.29)</u>	<u>\$ (251,678.06)</u>	<u>\$ 3,452,205.38</u>

Depreciation expense was charged to functions as follows:

Water	\$ 168,606.89
Sewer	<u>250,679.12</u>
Total Depreciation Expense, Business-Type Activities	<u>\$ 419,286.01</u>

7. Changes in Long-term Debt

A summary of the changes in long-term debt for the year ended December 31, 2019 is as follows:

	1/1/2019 Beginning Balance	Additions	Retired	12/31/2019 Ending Balance	Due within One Year
Primary Government:					
Governmental Activities:					
Bonds Payable - Revenue	\$ 966,785.45	\$ 1,525,000.00	\$ 150,126.91	\$ 2,341,658.54	\$ 214,997.54
State Revolving Funds	163,757.13		47,600.58	116,156.55	50,025.61
Promissory Note	643,335.18		22,694.36	620,640.82	23,507.45
Accrued Compensated Absences- Governmental Funds	<u>58,530.74</u>	<u>36,563.35</u>	<u>26,192.45</u>	<u>68,901.64</u>	<u>68,901.64</u>
Total Governmental Activities	<u>1,832,408.50</u>	<u>1,561,563.35</u>	<u>246,614.30</u>	<u>3,147,357.55</u>	<u>357,432.24</u>
Business-Type Activities:					
State Revolving Funds	2,969,795.66		255,632.29	2,714,163.37	264,670.82
Accrued Compensated Absences- Business-Type Funds	<u>30,359.50</u>	<u>16,974.44</u>	<u>14,459.46</u>	<u>32,874.48</u>	<u>32,874.48</u>
Total Business-Type Activities	<u>3,000,155.16</u>	<u>16,974.44</u>	<u>270,091.75</u>	<u>2,747,037.85</u>	<u>297,545.30</u>
Total Primary Government	<u>\$ 4,832,563.66</u>	<u>\$ 1,578,537.79</u>	<u>\$ 516,706.05</u>	<u>\$ 5,894,395.40</u>	<u>\$ 654,977.54</u>

Debt payable at December 31, 2019 is comprised of the following:

	General Long-Term Debt
<u>Revenue Bonds</u>	
Sales Tax Revenue Bond—Series 2013, 3.25% interest, Final Maturity Date of January 1, 2023. Retired by the General Fund.	\$ 346,091.61
Sales Tax Revenue Bond—Series 2014, 3.15% interest, Final Maturity Date of November 1, 2023. Retired by the General Fund.	470,566.93
Sales Tax Revenue Bond—Series 2019, 2.38% interest, Final Maturity Date of December 1, 2038. Retired by the General Fund.	<u>1,525,000.00</u>
TOTAL REVENUE BONDS	<u>\$ 2,341,658.54</u>
<u>Promissory Note</u>	
Note with ReliaBank Dakota; 3.77% Interest, Final Maturity Date of July 1, 2038: Retired by the General Fund.	<u>\$ 620,640.82</u>

<u>State Revolving Loans</u>	<u>General Long-Term Debt</u>	<u>Enterprise Funds</u>
State Revolving Fund Loan; 5.00% Interest, Final Maturity Date of April 1, 2022: Retired by the General Fund.	\$ 116,156.55	
State Revolving Fund Loan; 3.25% Interest, Final Maturity Date of April 15, 2027: Retired by the Water Fund.		\$ 493,203.95
State Revolving Fund Loan; 3.25% Interest, Final Maturity Date of January 15, 2024: Retired by the Water Fund.		216,687.24
State Revolving Fund Loan; 3.25% Interest, Final Maturity Date of January 15, 2028: Retired by the Sewer Fund.		270,999.80
State Revolving Fund Loan; 3.50% Interest, Final Maturity Date of January 15, 2024: Retired by the Sewer Fund.		145,634.40
State Revolving Fund Loan; 3.25% Interest, Final Maturity Date of October 1, 2022: Retired by the Sewer Fund.		54,622.27
State Revolving Fund Loan; 5.00% Interest, Final Maturity Date of April 1, 2022: Retired by the Sewer Fund.		84,645.76
State Revolving Fund Loan; 5.00% Interest, Final Maturity Date of January 15, 2049: Retired by the Sewer Fund.		1,448,369.95
TOTAL STATE REVOLVING LOANS	\$ 116,156.55	\$ 2,714,163.37

Compensated Absences

Accumulated Liability for Unused Vacation. Payments to be made by the funds that payroll expenditures are charged to.

\$ 68,901.64	\$ 32,874.48
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The annual requirements to amortize all debt outstanding as of December 31, 2019, except for compensated absences, are as follows:

GOVERNMENTAL ACTIVITIES

Year Ended <u>Dec 31,</u>	Revenue Bonds		State Revolving Loan		Promissory Note		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 214,998	\$ 69,555	\$ 50,026	\$ 4,880	\$ 23,507	\$ 23,450	\$ 288,531	\$ 97,885
2021	224,976	56,707	52,574	2,331	24,486	22,472	302,036	81,510
2022	235,163	50,642	13,557	170	25,435	21,523	274,155	72,335
2023	239,843	44,297			26,422	20,536	266,265	64,833
2024	152,047	37,827			27,390	19,568	179,437	57,395
2025-2029	454,632	142,732			153,986	80,804	608,618	223,536
2030-2034	430,000	82,544			186,261	48,529	616,261	131,073
2035-2039	390,000	24,506			153,154	11,198	543,154	35,704
Total	<u>\$ 2,341,659</u>	<u>\$ 508,810</u>	<u>\$ 116,157</u>	<u>\$ 7,381</u>	<u>\$ 620,641</u>	<u>\$ 248,080</u>	<u>\$ 3,078,457</u>	<u>\$ 764,271</u>

BUSINESS-TYPE ACTIVITIES

Year Ended Dec 31,	State Revolving Loan	
	Principal	Interest
2020	\$ 264,671	\$ 76,431
2021	274,041	67,060
2022	248,142	57,722
2023	230,133	50,038
2024	138,913	43,794
2025-2029	496,589	161,571
2030-2034	232,634	119,198
2035-2039	263,507	88,325
2040-2044	298,476	53,356
2045-2049	267,058	14,408
Total	<u>\$ 2,714,164</u>	<u>\$ 731,903</u>

Utilities Revenues Pledged:

The City has pledged future water, electric, telephone and cable customer revenues, net of specified operating expenses:

The City has pledged future water customers' revenues, net of specified operating expenses, to repay \$1,924,513 in water system loans issued in 2003 and 2005. Proceeds from the loans provided financing for the construction of water system infrastructure.

The loans are payable solely from water customer net revenues and are payable through 2027. Annual principal and interest payment on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$788,735. Principal and interest paid for the current year and total customer net revenues were \$134,920 and \$646,268 respectively.

The City had also pledged future sewer customers' revenues, net of specified operating expenses, to repay \$3,359,664 in sewer system loans issued in 2001, 2002, 2003, 2007, and 2017. Proceeds from the loans provided financing for the construction of sewer system improvements.

The loans are payable solely from sewer customer net revenues and are payable through 2049. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,657,332. Principal and interest paid for the current year and total customer net revenues were \$206,181 and \$557,331 respectively.

8. Restricted Net Position

Restricted net position for the year ended December 31, 2019 was as follows:

Purpose		
Debt Service Funds	\$	4,249.08
Capital Improvement		152,929.45
SDRS Pension Purposes		51,979.24
Community Development		67,388.62
SDPAA Contribution		29,264.00
Total Restricted Net Position	\$	305,810.39

These balances are restricted due to federal grant and statutory requirements.

9. Interfund Transfers

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

	<u>Transfer To:</u>		
	<u>Capital Project Fund</u>		
	<u>Vandemark St</u>	<u>Mickelson</u>	
	Fund	Road Fund	Total
<u>Transfer From:</u>			
General Fund	\$ 64,852.00	\$ 653,000.00	\$ 717,852.00
Water Fund		232,000.00	232,000.00
Sewer Fund		240,000.00	240,000.00
Totals	<u>\$ 64,852.00</u>	<u>\$ 1,125,000.00</u>	<u>\$ 1,189,852.00</u>

The City transferred monies to the capital project funds to utilize the debt proceeds received by the enterprise funds for these projects.

10. Risk Management

The city is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2019, the city managed its risks as follows:

Employee Health Insurance:

The city purchases health insurance for its employees from a commercial insurance carrier. Settled results 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, 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 Municipality'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 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 torts, thefts, errors and omissions, automobile and general liability.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided up to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$350,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of City's First Full Year	50%
End of City's Second Full Year	60%
End of City's Third Full Year	70%
End of City's Fourth Full Year	80%
End of City's Fifth Full Year	90%
End of City's Sixth Full Year and Thereafter	100%

As of December 31, 2019, the City has a vested balance in the cumulative reserve fund of \$29,264.

Worker's Compensation:

The city joined the South Dakota City League Worker's Compensation 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 the behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and 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 an additional \$2,000,000 per individual 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 never exceeded the liability coverage.

Unemployment Benefits

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

11. Significant Contingencies-Litigation

At December 31, 2019, the City was not involved in any litigation.

12. 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 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/> 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 retirement benefits that do not meet the above criteria may be payable at a reduced level.

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members 8.0% of salary. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2019, 2018, and 2017 were \$31,285.92, \$26,542.03, and \$25,891.77, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2019, SDRS is 100.09% 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 City as of this measurement period and reported by the City as of December 31, 2019 are as follows:

Proportionate share of pension benefits	\$ 2,807,061.24
Less proportionate share of net pension retracted for pension benefit	<u>2,809,448.23</u>
Proportionate share of net pension asset	<u>\$ (2,386.99)</u>

At December 31, 2019, the City reported an asset of \$(2,386.99) for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019 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, 2019, the City's proportion was .02252460%, which is an increase of .0016426% from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the City recognized a pension expense of \$63,364.33. At December 31, 2019 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 9,363.23	\$ 1,080.39
Changes in assumption	82,440.43	33,796.59
Net difference between projected and actual earnings on pension plan investments		13,751.02
Changes in proportion and difference between City contributions and proportionate share of contributions	573.24	10,346.35
City contributions subsequent to the measurement date	<u>16,189.70</u>	
TOTAL	<u>\$ 108,566.60</u>	<u>\$ 58,974.35</u>

\$16,189.70 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) 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:

Year Ended December 31:

2020	\$ 48,559.30
2021	(11,351.73)
2022	(7,559.56)
2023	<u>3,754.54</u>
TOTAL	<u>\$ 33,402.55</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.88%

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

The actuarial assumptions used in the June 30, 2019 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 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, 2018 (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%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	<u>2.0%</u>	0.9%
Total	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.5 percent. 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 from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

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

	<u>1%</u> <u>Decrease</u>	Current Discount <u>Rate</u>	<u>1%</u> <u>Increase</u>
City's proportionate share of the net pension liability (asset)	\$ 396,193.76	\$ (2,386.99)	\$ (327,158.28)

Pension Plan Fiduciary Net Position:

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

13. Prior Period Adjustment

Capital assets purchased in previous periods were not recorded. As a result, beginning net position of \$9,587,265.86 in the government-wide statements has been restated to reflect the related values of \$124,693.93. The new beginning net position total is being reflected as \$9,711,959.79.

14. Individual Fund Interfund Receivable and Payable Balances

Interfund receivable and payable balances at December 31, 2019 were:

<u>Fund</u>	<u>Interfund</u> <u>Receivables</u>	<u>Interfund</u> <u>Payables</u>
General Fund	\$ 49,018.96	\$
Mickelson Road Project Fund		49,018.96
Total	<u>\$ 49,018.96</u>	<u>\$ 49,018.96</u>

The General Fund loaned monies to the Mickelson Road Project Fund to cover temporary cash shortages. The City Council plans to transfer funds to cover these shortages before December 31, 2020.

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF HARTFORD
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes:				
General Property Taxes	1,258,553.00	\$ 1,258,553.00	\$ 1,241,923.80	\$ (16,629.20)
General Sales and Use Taxes	870,000.00	870,000.00	958,529.98	88,529.98
Gross Receipts Business Taxes	23,000.00	23,000.00	22,565.99	(434.01)
Excise Taxes	1,050.00	1,050.00	27,451.50	26,401.50
Licenses and Permits	87,500.00	87,500.00	80,205.02	(7,294.98)
Intergovernmental Revenue:				
Federal & State Grants	3,500.00	3,500.00	3,200.00	(300.00)
State Grants				
State Shared Revenue:				
Bank Franchise Tax	33,700.00	33,700.00	34,484.60	784.60
Liquor Tax Reversion	16,000.00	16,000.00	16,514.33	514.33
Motor Vehicle Licenses (5%)	19,000.00	19,000.00	22,912.06	3,912.06
County Shared Revenue:				
County Highway and Bridge Tax	20,000.00	20,000.00	24,302.63	4,302.63
County Wheel Tax	3,600.00	3,600.00	3,850.60	250.60
Other Intergovernmental Revenue	31,236.24	31,236.24	30,561.88	(674.36)
Charge for Services:				
Culture and Recreation	30,500.00	30,500.00	30,080.66	(419.34)
Other	37,800.00	37,800.00		(37,800.00)
Fines and Forfeits:				
Court Fines and Costs	4,000.00	4,000.00	8,431.17	4,431.17
Miscellaneous Revenue:				
Investment Earnings	1,002.75	1,002.75	3,204.68	2,201.93
Rentals				
Special Assessments				
Contribution and Donations	2,000.00	2,000.00	2,207.89	207.89
Other	4,970.32	4,970.32	16,256.45	11,286.13
Total Revenue	<u>2,447,412.31</u>	<u>2,447,412.31</u>	<u>2,526,683.24</u>	<u>79,270.93</u>
<u>Expenditures:</u>				
General Government:				
Legislative	28,420.00	28,420.00	24,894.08	3,525.92
Executive	5,570.00	5,570.00	5,176.48	393.52
Elections	935.00	935.00	29.40	905.60
Financial Administration	369,515.00	413,255.00	405,510.68	7,744.32
Other	57,900.00	58,900.00	58,673.70	226.30
Total General Government	<u>462,340.00</u>	<u>507,080.00</u>	<u>494,284.34</u>	<u>12,795.66</u>

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF HARTFORD
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Public Safety:				
Police	254,978.56	256,871.56	248,626.54	8,245.02
Fire	135,000.00	175,000.00	175,000.00	
Total Public Safety	<u>389,978.56</u>	<u>431,871.56</u>	<u>423,626.54</u>	<u>8,245.02</u>
Public Works:				
Highways, Streets and Dikes	470,470.00	506,676.00	448,204.25	58,471.75
Transit	50,300.00	50,300.00	7,759.20	42,540.80
Total Public Works	<u>520,770.00</u>	<u>556,976.00</u>	<u>455,963.45</u>	<u>101,012.55</u>
Health and Welfare:				
Professional Services	3,000.00	3,000.00	1,943.95	1,056.05
Supplies	300.00	300.00	454.88	(154.88)
Total Health and Welfare	<u>3,300.00</u>	<u>3,300.00</u>	<u>2,398.83</u>	<u>901.17</u>
Culture and Recreation:				
Recreation	190,145.00	190,289.71	181,868.89	8,420.82
Parks	217,810.00	289,054.00	279,557.19	9,496.81
Libraries	3,600.00	7,100.00	7,100.00	
Total Culture and Recreation	<u>411,555.00</u>	<u>486,443.71</u>	<u>468,526.08</u>	<u>17,917.63</u>
Conservation and Development:				
Economic Development and Assist	254,240.00	254,240.00	174,557.86	79,682.14
Total Conservation and Development	<u>254,240.00</u>	<u>254,240.00</u>	<u>174,557.86</u>	<u>79,682.14</u>
Debt Service	<u>283,061.96</u>	<u>283,061.96</u>	<u>283,061.96</u>	
Contingency	<u>50,000.00</u>	<u>5,267.00</u>		<u>5,267.00</u>
Total Expenditures	<u>2,375,245.52</u>	<u>2,528,240.23</u>	<u>2,302,419.06</u>	<u>225,821.17</u>
Excess of Revenue Over (Under)				
Expenditures	<u>72,166.79</u>	<u>(80,827.92)</u>	<u>224,264.18</u>	<u>305,092.10</u>
<u>Other Financing Sources (Uses):</u>				
Sale of Municipal Property			970.32	970.32
Transfers (Out)			(717,852.00)	(717,852.00)
Total Other Financing Sources (Uses)			<u>(716,881.68)</u>	<u>(716,881.68)</u>
Net Change in Fund Balances	72,166.79	(80,827.92)	(492,617.50)	(411,789.58)
Fund Balance - Beginning	<u>2,274,467.74</u>	<u>2,274,467.74</u>	<u>2,274,467.74</u>	
FUND BALANCE - ENDING	<u>\$ 2,346,634.53</u>	<u>\$ 2,193,639.82</u>	<u>\$ 1,781,850.24</u>	<u>\$ (411,789.58)</u>

CITY OF HARTFORD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund

Note 1: Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board/City Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board/City Commission, 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 the resolution of the Governing Board/City Commission 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 the resolution of the Governing Board/City Commission.

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds and capital project funds.
7. Budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America (USGAAP).

Note 2: GAAP/ Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP 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.

Schedule of Required Supplementary Information

CITY OF HARTFORD

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
 South Dakota Retirement System

	2014	2015	2016	2017	2018	2019
City's proportion of the net pension liability (asset)	0.020014%	0.0197192%	0.0183443%	0.0205098%	0.0208820%	0.0225246%
City's proportionate share of net pension liability (asset)	\$ (144,193)	\$ (83,635)	\$ 61,965	\$ (1,861)	\$ (487)	\$ (2,387)
City's covered-employee payroll	\$ 351,600	\$ 359,682	\$ 372,316	\$ 431,529	\$ 442,366	\$ 521,432
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-41.01%	-23.25%	16.64%	-0.43%	-0.11%	-0.46%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%	104.1%	96.9%	100.1%	100.0%	100.09%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year.

Schedule of Required Supplementary Information

CITY OF HARTFORD

SCHEDULE OF THE CITY'S CONTRIBUTIONS

South Dakota Retirement System

	2015	2016	2017	2018	2019
Contractually required contribution	\$ <u>21,581</u>	\$ <u>22,339</u>	\$ <u>25,892</u>	\$ <u>26,542</u>	\$ <u>31,286</u>
Contributions in relation to the contractually required contribution	\$ <u>21,581</u>	\$ <u>22,339</u>	\$ <u>25,892</u>	\$ <u>26,542</u>	\$ <u>31,286</u>
City's covered-employee payroll	\$ 359,682	\$ 372,316	\$ 431,529	\$ 442,366	\$ 521,432
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%

CITY OF HARTFORD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Proportionate Share of the Net Pension Liability (Asset) and Schedule
Of Pension Contributions.

Changes of benefit terms:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal 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 existed as of June 30, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions decreased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

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.

CITY OF HARTFORD
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2019

	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Capital Projects</u>		<u>Total</u>
	3rd Penny Sales Tax Fund	2007 Special Assessments Debt Service	Sports Complex Fund	Nonmajor Governmental Funds			
<u>ASSETS:</u>							
Cash and Cash Equivalents	\$ 61,472.02	\$ 4,249.08	\$ 126,768.85	\$ 188,240.87			
Special Assessments Receivable - Delinquent Due From Government	5,916.60			4,249.08			
TOTAL ASSETS	\$ 67,388.62	\$ 4,249.08	\$ 126,768.85	\$ 198,406.55			
<u>LIABILITIES AND FUND BALANCES:</u>							
Liabilities:							
No Liabilities	\$	\$	\$	\$			
<u>DEFERRED INFLOWS OF RESOURCES</u>							
Unavailable Revenue - Special Assessments		4,249.08		4,249.08			
Fund Balances:							
Restricted	67,388.62		126,768.85	194,157.47			
Total Fund Balances	67,388.62		126,768.85	194,157.47			
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 67,388.62	\$ 4,249.08	\$ 126,768.85	\$ 198,406.55			

CITY OF HARTFORD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Capital Projects</u>			<u>Total</u>
	<u>3rd Penny Sales Tax Fund</u>	<u>Sports Complex Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Funds</u>
<u>Revenues:</u>				
<u>Taxes:</u>				
General Sales and Use Taxes	\$ 68,795.58	\$ 51,120.00		\$ 119,915.58
Miscellaneous Revenue:				
Investment Earnings	60.26	215.42		275.68
Total Revenue	<u>68,855.84</u>	<u>51,335.42</u>		<u>120,191.26</u>
<u>Expenditures:</u>				
Conservation and Development:				
Economic Development and Assistance	97,490.00			97,490.00
Capital Outlay		22,794.52		22,794.52
Total Expenditures	<u>97,490.00</u>	<u>22,794.52</u>		<u>120,284.52</u>
Net Change in Fund Balances	(28,634.16)	28,540.90		(93.26)
Fund Balance - Beginning	<u>96,022.78</u>	<u>98,227.95</u>		<u>194,250.73</u>
Fund Balance - Ending	<u>\$ 67,388.62</u>	<u>\$ 126,768.85</u>		<u>\$ 194,157.47</u>

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
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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

City Council
The City of Hartford
Minnehaha County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hartford, South Dakota, as of December 31, 2019, and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of Hartford's basic financial statements and have issued our report thereon dated September 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hartford's internal control over. Accordingly, we do not express an opinion on the effectiveness of the City of Hartford'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 and significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item 2019-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Hartford, South Dakota's Response to Finding

The City of Hartford's response to the finding identified in our audit is on page 44. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. The 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.



Quam, Berglin & Post, P.C.
Certified Public Accountants

Elk Point, South Dakota

September 16, 2020

**CITY OF HARTFORD
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2019**

STATUS OF PRIOR AUDIT FINDINGS:

The prior audit recommendation 2018-001 has not been corrected and is restated as Current Audit Finding Number 2019-001.

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings – Material Weakness:

AUDIT FINDING NUMBER 2019-001:

There is a material weakness resulting from lack of segregation of duties for revenues and expenditures.

Criteria:

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to revenues. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

Condition, Cause and Effect:

A material weakness in internal control was reported due to lack of proper segregation of duties for revenues and expenditures resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Recommendations:

We recommend that the City of Hartford officials be cognizant of this lack of segregation of duties for revenues and expenditures and attempt to provide compensating controls, whenever and wherever possible and practical.

Corrective Action Plan:

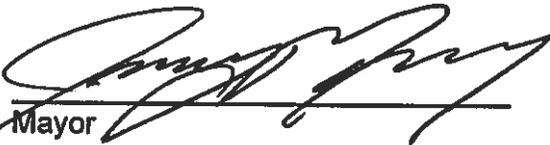
The City of Hartford's officials are aware of this problem, which is a result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls. They have included a response to the finding on page 44.

**CITY OF HARTFORD
125 N. MAIN AVE.
HARTFORD, SD 57033**

**Corrective Action Plan
For the year ended December 31, 2019**

The City of Hartford has considered the lack of segregation of duties for the revenue and expenditure functions.

At this time it is not cost efficient for the City of Hartford to hire additional staff needed to achieve segregation of duties. The City of Hartford has implemented alternate procedures, to decrease the likelihood that financial data is adversely affected.



Mayor



Finance Officer/City Administrator