

CITY OF PIEDMONT, SOUTH DAKOTA

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS, AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019

CASEY  **PETERSON**
Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

City of Piedmont, South Dakota
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December 31, 2019

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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

Board of Trustees
City of Piedmont, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Piedmont, South Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Piedmont, South Dakota's basic financial statements and have issued our report thereon dated July 23, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Piedmont, South Dakota'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 Piedmont, South Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Piedmont, South Dakota's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Management's Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Management's Responses as 2019-001 and 2019-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Management's Responses as 2019-003 to be a significant deficiency.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Piedmont, South Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Governmental Auditing Standards.

City of Piedmont, South Dakota's Response to Findings

The City of Piedmont, South Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and management's responses. The City of Piedmont, South Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in blue ink that reads "Casey Peterson, LTD." The signature is written in a cursive style.

Casey Peterson, Ltd.

Rapid City, South Dakota
July 23, 2020

City of Piedmont, South Dakota
Schedule of Findings and Management's Responses
December 31, 2019

Material Weakness

Lack of Segregation of Duties

2019-001 *Condition:* Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. The City of Piedmont, South Dakota has a concentration of incompatible duties related to the cash receipt and journal entry process. This finding was reported in the prior year.

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

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

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

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

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

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

The City will be instituting a system of review and approval of all journal entries. A new form will be developed and implemented to adequately document the processes of preparation, review, and approval. All supporting documentation to justify the journal entry will be attached to the journal entry. A permanent record of this documentation will be filed in the Finance Office.

Responsible Parties: Finance Officer and Deputy Finance Officer

Time Frame: Ongoing

Material Weakness

Internal Control over Water Billing

2019-002 *Condition:* Internal controls are designed to help prevent or detect losses from employee dishonesty or error. The City of Piedmont, South Dakota does not have a system of adequately designed internal control to prevent, or detect and correct, errors in water billing.

Criteria: Establishing internal controls over the water billing cycle is the responsibility of management. The Organization should have an internal control system in place to review water billings in order to mitigate the risk for errors or fraud to occur.

City of Piedmont, South Dakota
Schedule of Findings and Management's Responses
December 31, 2019

Cause: The City relies heavily on ClerkBooks, the water billing system, and does not perform an analytical review of monthly receipts for reasonableness or perform a recalculation of water bills to ensure the system is correctly calculating bills.

Effect: There is the potential that intentional or unintentional errors could be made and might not be detected. The City lost receipts of approximately \$6,500 due to an error in the water billing system.

Auditor's Recommendation: We recommend the City implement analytical reviews to assess the reasonableness of monthly water billings and receipts. Analysis is important for the City's budgetary process and comparison of fees charged, the sufficiency of approved rates to cover the fund's disbursements, and the fund's ability to be self-sustaining. We suggest the City perform an analysis of water collections and billed usage to gallons pumped and purchased. We recommend the City recalculate a sample of monthly water bills to ensure the system is properly calculating amounts billed.

Management's Response: The City has worked with the utility billing software company to correct an error that was discovered in the water billing software. In addition, the City will implement a process of spot checks for reasonableness of the water billing process including recalculating a sample of water bills and performing an analytical review based on water collections and billed usage compared to gallons pumped and purchased. All reviews and recalculations will be documented.

Responsible Party: Finance Officer

Time Frame: Ongoing

Significant Deficiency

Internal Control over Payroll Processes

2019-003 *Condition:* Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. The City of Piedmont, South Dakota has inadequate review and approval of the payroll process.

Criteria: Establishing adequate internal controls over the preparation of payroll the responsibility of management. The Organization should have an adequate internal control system in place related to the payroll system to mitigate the risks of errors or fraud.

Cause: The Deputy Finance Officer approves all timecards and processes payroll. Board members approve the checks. However, there is no review of hours paid to hours worked. The City does not have documentation of review of the Deputy Finance Officer's timecard and wages paid.

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

Auditor's Recommendation: We recommend the City implement following internal control processes over payroll:

- The Finance Officer should review and approve all employee timecards other than their own, recalculating the total hours worked to ensure total hours are correct. The Finance Officer should sign and date the timecards to document the completion of the review. The Finance Officer's timecard should be reviewed and approved by the Deputy Finance Officer or a Board member.

City of Piedmont, South Dakota
Schedule of Findings and Management's Responses
December 31, 2019

- The Finance Officer should give the approved timesheets to the Deputy Finance Officer to process payroll.
- The processed payroll and all supporting documentation should then be given back to the Finance Officer to review and approve, making sure the hours paid agree to hours worked from each employee's timecard. The Finance Officer should document this review by initialing and dating the payroll summary report.
- The reviewed payroll summary report and paychecks should be given to the Board to review and sign the payroll checks.

Management's Response: The City will develop a procedure for the Finance Officer or other authorized party to review and approve all employee timecards to ensure hours worked are properly calculated and reported. The review will be documented. Once payroll is processed, the payroll and supporting documentation will be provided to the Board to verify the hours paid to the total worked. Documentation will be initialed by the reviewer and maintained with the payroll file.

Responsible Party: Finance Officer

Time Frame: Immediate implementation with ongoing monitoring.

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Independent Auditor's Report

Board of Trustees
City of Piedmont, South Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Piedmont, South Dakota (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Piedmont, South Dakota, as of December 31, 2019, and the respective changes in modified cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.



Basis of Accounting

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

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Piedmont, South Dakota's basic financial statements. The Corrective Action Plan on pages 5 - 6, the budgetary comparison information on pages 28 - 29, and the list of City Officials on page 30, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2020, on our consideration of the City of Piedmont, South Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Piedmont, South Dakota's internal control over financial reporting and compliance.



Casey Peterson, Ltd.

Rapid City, South Dakota
July 23, 2020

BASIC FINANCIAL STATEMENTS

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CITY OF PIEDMONT, SOUTH DAKOTA

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2019**

| | Governmental Activities | Business-type Activities | Total Primary Government |
|----------------------------|------------------------------------|-------------------------------------|---|
| <u>ASSETS</u> | | | |
| Cash and Cash Equivalents | \$ 691,289 | \$ 29,915 | \$ 721,204 |
| Investments | - | 20,601 | 20,601 |
| TOTAL ASSETS | \$ 691,289 | \$ 50,516 | \$ 741,805 |
| <u>NET POSITION</u> | | | |
| Restricted for: | | | |
| Amounts Owed to Others | \$ - | \$ 5,033 | \$ 5,033 |
| Reserved for Debt Service | - | 37,336 | 37,336 |
| Unrestricted | 691,289 | 8,147 | 699,436 |
| TOTAL NET POSITION | \$ 691,289 | \$ 50,516 | \$ 741,805 |

The accompanying notes are an integral part of this statement.

CITY OF PIEDMONT, SOUTH DAKOTA

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| Functions/Programs | Disbursements | Charges for Services |
|---------------------------------|----------------------|---------------------------------|
| Governmental Activities: | | |
| General Government | \$ 150,058 | \$ 44,301 |
| Public Safety | 846 | - |
| Public Works | 192,704 | - |
| Culture and Recreation | 94,349 | - |
| Total Governmental Activities | 437,957 | 44,301 |
| Business-type Activities | | |
| Water | 133,651 | 136,232 |
| Total Business-type Activities | 133,651 | 136,232 |
| Total Primary Government | \$ 571,608 | \$ 180,533 |

The accompanying notes are an integral part of this statement.

| | | Net (Disbursements) Receipts and Changes in Net Position | | |
|---|---|---|-----------------------------|-------------------|
| Operating Grants, Loans and Contributions | Capital Grants, Loans and Contributions | Governmental Activities | Business-type Activities | Total |
| \$ 1,737 | \$ 11,900 | \$ (92,120) | \$ - | \$ (92,120) |
| - | - | (846) | - | (846) |
| - | - | (192,704) | - | (192,704) |
| - | - | (94,349) | - | (94,349) |
| 1,737 | 11,900 | (380,019) | - | (380,019) |
| <hr/> | | | | |
| - | - | - | 2,581 | 2,581 |
| - | - | - | 2,581 | 2,581 |
| <hr/> | | | | |
| \$ 1,737 | \$ 11,900 | (380,019) | 2,581 | (377,438) |
| <hr/> | | | | |
| General Receipts | | | | |
| Taxes: | | | | |
| Sales Taxes | | 289,830 | - | 289,830 |
| Property Taxes | | 144,055 | - | 144,055 |
| Gross Business Tax | | 1,118 | - | 1,118 |
| Amusement Taxes | | 156 | - | 156 |
| State Shared Receipts | | 24,598 | - | 24,598 |
| County Shared Receipts | | 15,955 | - | 15,955 |
| Fines and Forfeits | | 707 | - | 707 |
| Interest on Certificates of Deposit | | - | 433 | 433 |
| Miscellaneous Receipts | | 304 | - | 304 |
| Total General Receipts | | 476,723 | 433 | 477,156 |
| <hr/> | | | | |
| Change in Net Position | | 96,704 | 3,014 | 99,718 |
| <hr/> | | | | |
| Net Position -- Beginning | | 594,585 | 47,502 | 642,087 |
| <hr/> | | | | |
| Net Position -- Ending | | \$ 691,289 | \$ 50,516 | \$ 741,805 |
| <hr/> | | | | |

CITY OF PIEDMONT, SOUTH DAKOTA

**BALANCE SHEET - MODIFIED CASH BASIS - GOVERNMENTAL FUND
DECEMBER 31, 2019**

| <u>ASSETS</u> | <u>General Fund</u> |
|-----------------------------|--------------------------------|
| Cash and Cash Equivalents | \$ 691,289 |
| TOTAL ASSETS | \$ 691,289 |
| <hr/> | |
| <u>FUND BALANCES</u> | |
| Unassigned | \$ 691,289 |
| TOTAL FUND BALANCES | \$ 691,289 |

The accompanying notes are an integral part of this statement.

CITY OF PIEDMONT, SOUTH DAKOTA

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS - GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | General Fund |
|--|-------------------------|
| Receipts | |
| Taxes: | |
| Sales and Use Taxes | \$ 289,830 |
| Property Taxes | 143,788 |
| Gross Business Tax | 1,118 |
| Penalties and Interest on Delinquent Taxes | 267 |
| Amusement Taxes | 156 |
| Intergovernmental Receipts: | |
| State Shared Revenue | 24,598 |
| County Road Tax | 15,955 |
| State Grants | 1,737 |
| Licenses and Permits | 43,660 |
| Fines and Forfeits | 707 |
| Charges for Goods and Services | 641 |
| Other Revenue | 12,204 |
| Total Receipts | 534,661 |
| Disbursements | |
| General Government | |
| Financial Administration | 116,097 |
| Legislative | 18,102 |
| Executive | 4,083 |
| Other | 11,776 |
| Public Works | 158,146 |
| Public Safety | 846 |
| Culture and Recreation | |
| Library | 46,692 |
| Parks | 11,007 |
| <i>Capital Outlay</i> | 71,208 |
| Total Disbursements | 437,957 |
| Change in Fund Balance | 96,704 |
| Fund Balance, Beginning of Year | 594,585 |
| Fund Balance, End of Year | \$ 691,289 |

The accompanying notes are an integral part of this statement.

CITY OF PIEDMONT, SOUTH DAKOTA

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS - PROPRIETARY FUND
DECEMBER 31, 2019**

| <u>ASSETS</u> | <u>Water Fund</u> |
|----------------------------|------------------------------|
| Cash and Cash Equivalents | \$ 29,915 |
| Investments | 20,601 |
| TOTAL ASSETS | \$ 50,516 |
| | |
| <u>NET POSITION</u> | |
| Restricted: | |
| Amounts Owed to Others | \$ 5,033 |
| Reserved for Debt Service | 37,336 |
| Unrestricted | 8,147 |
| TOTAL NET POSITION | \$ 50,516 |

The accompanying notes are an integral part of this statement.

CITY OF PIEDMONT, SOUTH DAKOTA

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET POSITION -
MODIFIED CASH BASIS - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Water Fund |
|--|-----------------------|
| Operating Receipts | |
| Revenues Dedicated for Debt Service | \$ 136,232 |
| Total Operating Receipts | 136,232 |
| Operating Disbursements | |
| Personal Services | 6,591 |
| Other Current Disbursements | 58,173 |
| Total Operating Disbursements | 64,764 |
| Operating Income | 71,468 |
| Nonoperating Receipts (Disbursements) | |
| Principal Payments | (43,552) |
| Interest Payments | (25,335) |
| Interest on Certificates of Deposit | 433 |
| Net Nonoperating Receipts (Disbursements) | (68,454) |
| Change in Net Position | 3,014 |
| Net Position, Beginning | 47,502 |
| Net Position, Ending | \$ 50,516 |

The accompanying notes are an integral part of this statement.

CITY OF PIEDMONT, SOUTH DAKOTA

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

(1) Summary of Significant Accounting Policies

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

a. Reporting Entity

The reporting entity of the City of Piedmont, South Dakota (the City) consists of the primary government which includes all funds, organizations, institutions, agencies, departments and offices that make up the legal entity; those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation

Government-Wide Financial Statements:

The statement of net position – modified cash basis and statement of activities – modified cash basis display information about the City. These statements include the financial activities of the overall government, except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, inter-governmental 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 City has no fiduciary funds.

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

Fund Financial Statements:

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

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

CITY OF PIEDMONT, SOUTH DAKOTA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

The funds of the financial reporting entity are described below:

Governmental Funds:

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

Proprietary Funds:

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

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund – financed primarily by user charges this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

c. Measurement Focus and Basis of Accounting

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

The City’s basis of accounting is the modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-Wide Financial Statements:

In the statement of net position – modified cash basis and statement of activities – modified cash basis, both the governmental and business-type activities are presented using the economic resources measurement focus applied on the modified cash basis of accounting as defined in the “Basis of Accounting” section.

CITY OF PIEDMONT, SOUTH DAKOTA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Measurement Focus: (Continued)

Fund Financial Statements:

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

Basis of Accounting:

In the statement of net position – modified cash basis, the statement of activities – modified cash basis, and the fund financial statements, the governmental and business-type activities are presented using the modified cash basis of accounting.

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

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

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

If the City applied accounting principles generally accepted in the United States of America, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments

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

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

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

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

CITY OF PIEDMONT, SOUTH DAKOTA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets

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

f. Long-Term Liabilities

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

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

g. Program Receipts

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

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 acquisition of capital assets for use in a particular program.

h. Proprietary Funds Receipts and Disbursements Classification

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

i. Equity Classifications

Government-Wide Statements:

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

1. Restricted Net Position – Consists of net position with constraints placed on the use either by external groups or law.
2. Unrestricted Net Position – Includes all other net position that do not meet the definition of "Restricted Net Position".

CITY OF PIEDMONT, SOUTH DAKOTA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(1) Summary of Significant Accounting Policies (Concluded)

i. Equity Classifications (continued)

Fund Financial Statements:

The City classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form, such as inventories or prepaids, or because of legal or contractual constraints. The City has no nonspendable fund balances.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, grantors or contributors or amounts constrained due to constitutional provision or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the City Commissioners by resolution and does not lapse at year-end. No commitments have been made by the City.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Commissioners. The City has no assigned fund balances.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

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

j. Application of Net Position

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

k. Revenues Received in Advance

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

l. Subsequent Events

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

CITY OF PIEDMONT, SOUTH DAKOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019

(2) Deposits and Investments

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

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

Investments – In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. Investments classified in the financial statements consists entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investments authorized the South Dakota Codified Law (SDCL) 4-5-6.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2019, the City’s bank balances above FDIC limits are insured and collateralized in compliance with the South Dakota Public Deposit Protection Collateral Program.

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

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

(3) Property Taxes

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

CITY OF PIEDMONT, SOUTH DAKOTA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(4) Commitments

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

| | Balance 12/31/2018 | Repayments | Balance 12/31/2019 | Due Within One Year |
|---------------------------------------|-------------------------------|--------------------|-------------------------------|--------------------------------|
| Business-type Activities: | | | | |
| General Obligation Bond | \$ 339,069 | \$ (17,713) | \$ 321,356 | \$ 18,320 |
| Revolving Revenue Bond | 481,778 | (25,839) | 455,939 | 26,623 |
| Total Business-type Activities | \$ 820,847 | \$ (43,552) | \$ 777,295 | \$ 44,943 |

Long-term debt at December 31, 2019, is comprised of the following:

The General Obligation Bond, Series 2011, was issued to finance Phase 1 of a two-phase project for improvements to the City's water supply system and distribution system. The bond bears interest at 3.375% , due in monthly installments of \$2,407 and was originally due through April 1, 2051. The bond is financed by the water fund. The City has prepaid \$198,958 in debt principal resulting in a revised maturity schedule as the outstanding principal will be paid off prior to 2051. The prepaid principal has been applied to the ending years of the maturity schedule as the financing institution has not revised the payment schedule including principal and interest on the maturity schedule. Interest paid for the year ended December 31, 2019, was \$11,171.

\$ 321,356

The 2010 State Revolving Fund Revenue Bond was issued to finance Phase II of the two-phase project for improvements to the City's water supply and distribution system. The bond bears interest at 3% and is due in quarterly installments of \$10,001 through April, 2033 and is financed through the Water Fund. Interest paid for the year ended December 31, 2019, was \$14,164.

455,939

| | |
|-----------------------------|-------------------|
| Total Long-Term Debt | \$ 777,295 |
|-----------------------------|-------------------|

The annual requirements to amortize the long-term liability outstanding as of December 31, 2019, (using the revised repayment schedule for the General Obligation Bond), including interest are as follows:

| Year Ending: | Principal | Interest | Total |
|--------------|-------------------|-------------------|-------------------|
| 2020 | \$ 44,943 | \$ 23,945 | \$ 68,888 |
| 2021 | 46,379 | 22,509 | 68,888 |
| 2022 | 47,860 | 21,028 | 68,888 |
| 2023 | 49,390 | 19,498 | 68,888 |
| 2024 | 50,968 | 17,920 | 68,888 |
| 2025-2029 | 280,345 | 64,095 | 344,440 |
| 2030-2033 | 257,410 | 17,242 | 274,652 |
| Total | \$ 777,295 | \$ 186,237 | \$ 963,532 |

CITY OF PIEDMONT, SOUTH DAKOTA

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(5) Risk Management

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

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

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

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

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

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

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

As of December 31, 2019, the City's balance available to be refunded per the SDPAA was \$9,179, which was an increase of \$4,732 from the previous year.

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

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

CITY OF PIEDMONT, SOUTH DAKOTA

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2019**

(5) Risk Management (Continued)

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.

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

(6) Restricted Net Position

The amount classified as restricted net position at December 31, 2019, is classified as follows:

| Purpose | Restricted by | Amount |
|-----------------------------------|-----------------------|------------------|
| Amounts Owed to Sanitary District | Contractual Agreement | \$ 5,033 |
| Debt Service | Debt Covenants | 37,336 |
| Total Restrictions | | \$ 42,369 |

SUPPLEMENTARY INFORMATION

CITY OF PIEDMONT, SOUTH DAKOTA

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Budgeted Amounts | | Actual | Variance |
|--|-------------------|-------------------|-------------------|---------------------|
| | Original | Final | (Budgetary Basis) | Positive (Negative) |
| Receipts | | | | |
| Taxes: | | | | |
| Sales and Use Taxes | \$ 255,000 | \$ 250,000 | \$ 289,830 | \$ 39,830 |
| Property Taxes | 145,753 | 145,753 | 143,788 | (1,965) |
| Gross Business Tax | - | 1,000 | 1,118 | 118 |
| Penalties and Interest on Delinquent Taxes | - | 600 | 267 | (333) |
| Amusement Taxes | - | 300 | 156 | (144) |
| Intergovernmental Receipts: | | | | |
| State Shared Revenue | 25,000 | 25,000 | 24,598 | (402) |
| County Road Tax | 18,000 | 15,000 | 15,955 | 955 |
| State Grants | 200,000 | - | 1,737 | 1,737 |
| Licenses and Permits | 9,000 | 8,500 | 43,660 | 35,160 |
| Fines and Forfeits | 1,000 | 750 | 707 | (43) |
| Charges for Goods and Services | 5,000 | 5,000 | 641 | (4,359) |
| Other | 6,000 | 17,900 | 12,204 | (5,696) |
| Sale of Surplus Property | - | 100 | - | (100) |
| Total Receipts | 664,753 | 469,903 | 534,661 | 64,758 |
| Disbursements | | | | |
| General Government | | | | |
| Financial Administration | 132,753 | 134,545 | 116,097 | 18,448 |
| Legislative | 26,000 | 20,958 | 18,102 | 2,856 |
| Executive | 3,200 | 5,600 | 4,083 | 1,517 |
| Other | 75,000 | 15,600 | 11,776 | 3,824 |
| Total General Government | 236,953 | 176,703 | 150,058 | 26,645 |
| Public Works | 350,000 | 417,000 | 192,454 | 224,546 |
| Public Works - Flood Control | 350,000 | 58,000 | 250 | 57,750 |
| Public Safety | 5,000 | 1,000 | 846 | 154 |
| Culture and Recreation | | | | |
| Library | 50,000 | 50,000 | 46,692 | 3,308 |
| Parks | 16,500 | 67,200 | 47,657 | 19,543 |
| Contingency | - | 50,000 | - | 50,000 |
| Total Disbursements | 1,008,453 | 819,903 | 437,957 | 381,946 |
| Net Change in Fund Balance | (343,700) | (350,000) | 96,704 | 446,704 |
| Fund Balance, Beginning of Year | 594,585 | 594,585 | 594,585 | - |
| Fund Balance, End of Year | \$ 250,885 | \$ 244,585 | \$ 691,289 | \$ 446,704 |

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

CITY OF PIEDMONT, SOUTH DAKOTA

**NOTES TO SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019**

(1) Basis of Presentation

The budgetary comparison schedule has been prepared on the modified cash basis of accounting and presents capital outlay and debt service disbursements within each function similar to the statement of activities – modified cash basis.

(2) Budgets and Budgetary Accounting

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

1. At the regular meeting in June each year, the governing board introduces the annual appropriations ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board. The City did not encumber any amounts at December 31, 2019 or December 31, 2018.
6. The budget for the general fund is adopted on a basis consistent with that which is presented in the financial statements.

**CITY OF PIEDMONT, SOUTH DAKOTA
CITY OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2019**

**President
Steve Heilman**

**Vice President
Jack Parks**

**Trustees
Phil Anderson
Scott Toothman
Phil Aitken**

**Finance Officer
Diana L Evans**

**Deputy Finance Officer
Mary Jean Voigt**

**Water
Jeff Kottwitz**