

CITY OF BOX ELDER, 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 Box Elder, 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*

Honorable Mayor and City Council
City of Box Elder, 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 Box Elder, 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 Box Elder, South Dakota's basic financial statements and have issued our report thereon dated March 12, 2020.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Box Elder, 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 *Government Auditing Standards*.

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.

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
March 12, 2020

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

Honorable Mayor and City Council
City of Box Elder, South Dakota

We have audited the City of Box Elder, South Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Box Elder, South Dakota's major federal programs for the year ended December 31, 2019. The City of Box Elder, South Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Box Elder, South Dakota's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Box Elder, South Dakota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.



Report on Internal Control over Compliance

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

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

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

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

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota
March 12, 2020

City of Box Elder, South Dakota
Schedule of Findings and Questioned Costs
December 31, 2019

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

- a. The Independent Auditor's Report expressed an unmodified opinion on the modified cash basis financial statements of the City of Box Elder, South Dakota.
- b. No findings related to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance with Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- c. No instances of noncompliance material to the financial statements of the City, which would be required to be reported in accordance with *Government Auditing Standards*, were noted during the audit.
- d. No instances of noncompliance or material weaknesses in internal control over compliance related to the major federal programs were reported in the Independent Auditors' Report on Compliance for Each Major Program on Internal Control over Compliance Required by the Uniform Guidance.
- e. The independent auditor's report on compliance for the major federal award programs of the City of Box Elder, South Dakota expressed an unmodified opinion on the major federal program.
- f. No instances of material weakness or noncompliance in relation to the financial statement audit were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance with other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- g. The City's major program for year ended December 31, 2019 was:
 - Water and Waste Disposal Systems for Rural Communities CFDA #10.760
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- i. City of Box Elder, South Dakota did not qualify as a low-risk entity.

FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENT AUDIT

There were no findings related to the financial statement audit.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

There were no findings related to the major federal awards program audit.



SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

There were no findings issued in the prior year.



CORRECTIVE ACTION PLAN (UNAUDITED)

Corrective Action Plan is not required as no findings were issued in the current year.

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Independent Auditor's Report

Honorable Mayor and City Council
City of Box Elder, South Dakota

Report on the Financial Statements

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 Box Elder, 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 as 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Box Elder, 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 modified cash 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 opinions are not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Box Elder, South Dakota's basic financial statements. The budgetary comparison information and Schedule of Municipal Officials on pages 38 - 41 and 42, respectively, 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.

The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on page 43 is also presented for purposes of additional analysis and is also not a required part of the basic financial statements. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 March 12, 2020 on our consideration of the City of Box Elder, 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 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 Box Elder, South Dakota's internal control over financial reporting and compliance. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota

March 12, 2020

BASIC FINANCIAL STATEMENTS

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City of Box Elder, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2019

| | Primary Government | | |
|---------------------------------|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 4,370,582 | \$ 1,423,565 | \$ 5,794,147 |
| TOTAL ASSETS | <u>\$ 4,370,582</u> | <u>\$ 1,423,565</u> | <u>\$ 5,794,147</u> |
| NET POSITION | | | |
| Restricted for: | | | |
| Debt Service | \$ 1,097,308 | \$ 264,357 | \$ 1,361,665 |
| Construction and City Promotion | 2,163,603 | - | 2,163,603 |
| Customer Deposits | - | 242,104 | 242,104 |
| Unrestricted | <u>1,109,671</u> | <u>917,104</u> | <u>2,026,775</u> |
| TOTAL NET POSITION | <u>\$ 4,370,582</u> | <u>\$ 1,423,565</u> | <u>\$ 5,794,147</u> |

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2019

| Functions/Programs | Disbursements |
|--------------------------------|---------------|
| PRIMARY GOVERNMENT | |
| Governmental Activities: | |
| General Government | \$ 1,158,327 |
| Public Safety | 1,628,769 |
| Public Works | 3,751,899 |
| Culture and Recreation | 525,175 |
| Conservation and Development | 1,738,905 |
| Long-term Debt | 1,732,544 |
| Total Governmental Activities | 10,535,619 |
| Business-type Activities: | |
| Water | 2,450,760 |
| Sewer | 1,984,607 |
| Total Business-type Activities | 4,435,367 |
| Total Primary Government | \$ 14,970,986 |

The accompanying notes are an integral part of this statement.

| Program Receipts | | | Net (Disbursements) Receipts and Changes in Net Position | | |
|----------------------------------|--|--|---|-----------------------------|---------------------|
| Charges for Services | Capital Grants, Loans, and Contributions | Operating Grants and Contributions | Primary Government | | |
| | | | Governmental Activities | Business-type Activities | Total |
| \$ 253,692 | \$ - | \$ - | \$ (904,635) | \$ - | \$ (904,635) |
| 48,550 | - | 24,583 | (1,555,636) | - | (1,555,636) |
| 835 | 2,450,448 | 13,300 | (1,287,316) | - | (1,287,316) |
| - | - | - | (525,175) | - | (525,175) |
| - | - | 59,526 | (1,679,379) | - | (1,679,379) |
| - | - | - | (1,732,544) | - | (1,732,544) |
| <u>303,077</u> | <u>2,450,448</u> | <u>97,409</u> | <u>(7,684,685)</u> | <u>-</u> | <u>(7,684,685)</u> |
| 1,783,217 | - | - | - | (667,543) | (667,543) |
| <u>1,727,079</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(257,528)</u> | <u>(257,528)</u> |
| <u>3,510,296</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(925,071)</u> | <u>(925,071)</u> |
| <u>\$ 3,813,373</u> | <u>\$ 2,450,448</u> | <u>\$ 97,409</u> | <u>(7,684,685)</u> | <u>(925,071)</u> | <u>(8,609,756)</u> |
| GENERAL RECEIPTS | | | | | |
| Taxes: | | | | | |
| Property Taxes | | | 3,203,545 | - | 3,203,545 |
| Sales Taxes | | | 3,662,169 | - | 3,662,169 |
| State Shared Receipts | | | 191,481 | - | 191,481 |
| Unrestricted Investment Earnings | | | 69,703 | - | 69,703 |
| Miscellaneous Receipts | | | 196,615 | - | 196,615 |
| Sale of Municipal Property | | | 68,611 | - | 68,611 |
| Transfers | | | (400,000) | 400,000 | - |
| Total General Receipts | | | <u>6,992,124</u> | <u>400,000</u> | <u>7,392,124</u> |
| CHANGE IN NET POSITION | | | (692,561) | (525,071) | (1,217,632) |
| NET POSITION - BEGINNING | | | <u>5,063,143</u> | <u>1,948,636</u> | <u>7,011,779</u> |
| NET POSITION - ENDING | | | <u>\$ 4,370,582</u> | <u>\$ 1,423,565</u> | <u>\$ 5,794,147</u> |

The accompanying notes are an integral part of this statement.

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City of Box Elder, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2019

| | General Fund | Liquor, Lodging, and Dining Gross Receipts Tax Fund | Capital Projects Fund | Tax Increment District #1 Debt Service Fund | Total Governmental Funds |
|------------------------------------|---------------------|---|-----------------------------|--|--------------------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 1,109,671 | \$ 416,661 | \$ 2,035,942 | \$ 808,308 | \$ 4,370,582 |
| TOTAL ASSETS | <u>\$ 1,109,671</u> | <u>\$ 416,661</u> | <u>\$ 2,035,942</u> | <u>\$ 808,308</u> | <u>\$ 4,370,582</u> |
| FUND BALANCES | | | | | |
| Restricted: | | | | | |
| Debt Service | \$ - | \$ 289,000 | \$ - | \$ 808,308 | \$ 1,097,308 |
| Construction and City Promotion | - | 127,661 | 2,035,942 | - | 2,163,603 |
| Unassigned | <u>1,109,671</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,109,671</u> |
| TOTAL FUND BALANCES | <u>\$ 1,109,671</u> | <u>\$ 416,661</u> | <u>\$ 2,035,942</u> | <u>\$ 808,308</u> | <u>\$ 4,370,582</u> |

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Balances -
Modified Cash Basis - Governmental Funds
For the Year Ended December 31, 2019

| | General Fund | Liquor, Lodging, and Dining Gross Receipts Tax Fund | Capital Projects Fund | Tax Increment District #1 - Debt Service Fund | Total Governmental Funds |
|---|------------------|---|-----------------------------|--|--------------------------------|
| RECEIPTS | | | | | |
| Taxes: | | | | | |
| General Property Taxes | \$ 1,465,556 | \$ - | \$ - | \$ 1,735,368 | \$ 3,200,924 |
| General Sales and Use Taxes | 2,539,864 | 1,121,801 | - | - | 3,661,665 |
| Amusement Taxes | 504 | - | - | - | 504 |
| Penalties and Interest on Delinquent Taxes | 2,621 | - | - | - | 2,621 |
| Licenses and Permits | 247,967 | - | - | - | 247,967 |
| Intergovernmental Receipts: | | | | | |
| Federal Grants | 84,109 | - | - | - | 84,109 |
| State Grants | 264,294 | - | - | - | 264,294 |
| State Shared Receipts: | | | | | |
| Bank Franchise Tax | 15,874 | - | - | - | 15,874 |
| Prorate License Fee | 2,477 | - | - | - | 2,477 |
| Liquor Tax Reversion | 50,833 | - | - | - | 50,833 |
| Motor Vehicle Licenses | 84,483 | - | - | - | 84,483 |
| Local Government Highway and Bridge Fund | 31,091 | - | - | - | 31,091 |
| Other | 6,723 | - | - | - | 6,723 |
| Charges for Goods and Services: | | | | | |
| General Government | 5,725 | - | - | - | 5,725 |
| Public Safety | 48,550 | - | - | - | 48,550 |
| Court Fines and Forfeits | 835 | - | - | - | 835 |
| Miscellaneous Receipts: | | | | | |
| Investment Earnings | 69,703 | - | - | - | 69,703 |
| Contributions | - | 13,300 | 1,000,000 | - | 1,013,300 |
| Other | 154,026 | 42,589 | - | - | 196,615 |
| TOTAL RECEIPTS | <u>5,075,235</u> | <u>1,177,690</u> | <u>1,000,000</u> | <u>1,735,368</u> | <u>8,988,293</u> |

The accompanying notes are an integral part of this statement.

| | General Fund | Liquor, Lodging, and Dining Gross Receipts Tax Fund | Capital Projects Fund | Tax Increment District #1 - Debt Service Fund | Total Governmental Funds |
|--|---------------------|---|-----------------------------|--|--------------------------------|
| DISBURSEMENTS | | | | | |
| General Government: | | | | | |
| Executive | 258,229 | - | - | - | 258,229 |
| Financial Administration | 690,371 | - | - | - | 690,371 |
| Public Safety: | | | | | |
| Police | 1,449,685 | - | - | - | 1,449,685 |
| Public Works: | | | | | |
| Highways and Streets | 1,110,877 | - | - | - | 1,110,877 |
| Planning and Zoning | 327,528 | - | - | - | 327,528 |
| Culture and Recreation: | | | | | |
| Parks | 402,624 | - | - | - | 402,624 |
| Conservation and Development: | | | | | |
| Economic Development | 144,618 | 834,901 | - | - | 979,519 |
| Debt Service | 185,671 | 99,233 | 5,079 | 1,727,465 | 2,017,448 |
| Capital Outlay | <u>432,875</u> | <u>660,153</u> | <u>2,206,310</u> | - | <u>3,299,338</u> |
| TOTAL DISBURSEMENTS | <u>5,002,478</u> | <u>1,594,287</u> | <u>2,211,389</u> | <u>1,727,465</u> | <u>10,535,619</u> |
| Excess of Receipts Over (Under) Disbursements | 72,757 | (416,597) | (1,211,389) | 7,903 | (1,547,326) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Loan Proceeds | - | - | 1,186,154 | - | 1,186,154 |
| Transfers Out | (400,000) | - | - | - | (400,000) |
| Sale of Municipal Property | <u>68,611</u> | - | - | - | <u>68,611</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(331,389)</u> | <u>-</u> | <u>1,186,154</u> | <u>-</u> | <u>854,765</u> |
| Change in Fund Balances | (258,632) | (416,597) | (25,235) | 7,903 | (692,561) |
| FUND BALANCE - BEGINNING | <u>1,368,303</u> | <u>833,258</u> | <u>2,061,177</u> | <u>800,405</u> | <u>5,063,143</u> |
| FUND BALANCE - ENDING | <u>\$ 1,109,671</u> | <u>\$ 416,661</u> | <u>\$ 2,035,942</u> | <u>\$ 808,308</u> | <u>\$ 4,370,582</u> |

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Statement of Net Position - Modified Cash Basis - Proprietary Funds
December 31, 2019

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total Proprietary Funds</u> |
|---------------------------|-----------------------|-----------------------|--|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | <u>\$ 356,959</u> | <u>\$ 1,066,606</u> | <u>\$ 1,423,565</u> |
| TOTAL ASSETS | <u>356,959</u> | <u>1,066,606</u> | <u>1,423,565</u> |
| NET POSITION | | | |
| Restricted: | | | |
| Debt Service | 264,357 | - | 264,357 |
| Customer Deposits | 242,104 | - | 242,104 |
| Unrestricted | <u>(149,502)</u> | <u>1,066,606</u> | <u>917,104</u> |
| TOTAL NET POSITION | <u>\$ 356,959</u> | <u>\$ 1,066,606</u> | <u>\$ 1,423,565</u> |

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Net Position -
Modified Cash Basis - Proprietary Funds
For the Year Ended December 31, 2019

| | Water Fund | Sewer Fund | Total Proprietary Funds |
|-------------------------------------|-------------------|---------------------|-------------------------------|
| OPERATING RECEIPTS | | | |
| Charges for Goods and Services | \$ 1,563,632 | \$ 1,727,079 | \$ 3,290,711 |
| Revenues Dedicated for Debt Service | 219,585 | - | 219,585 |
| Total Operating Receipts | <u>1,783,217</u> | <u>1,727,079</u> | <u>3,510,296</u> |
| OPERATING DISBURSEMENTS | | | |
| Personal Services | 548,126 | 367,038 | 915,164 |
| Repairs and Maintenance | 463,120 | 35,212 | 498,332 |
| Other Current Disbursements | 447,392 | 1,349,792 | 1,797,184 |
| Total Operating Disbursements | <u>1,458,638</u> | <u>1,752,042</u> | <u>3,210,680</u> |
| Operating Income | <u>324,579</u> | <u>(24,963)</u> | <u>299,616</u> |
| NONOPERATING DISBURSMENTS | | | |
| Capital Purchases | (742,872) | (232,565) | (975,437) |
| Principal Payments | (130,190) | - | (130,190) |
| Interest Payments | (119,060) | - | (119,060) |
| Net Nonoperating Disbursements | <u>(992,122)</u> | <u>(232,565)</u> | <u>(1,224,687)</u> |
| TRANSFERS | | | |
| Transfers In | <u>400,000</u> | <u>-</u> | <u>400,000</u> |
| CHANGE IN NET POSITION | (267,543) | (257,528) | (525,071) |
| NET POSITION - BEGINNING | <u>624,502</u> | <u>1,324,134</u> | <u>1,948,636</u> |
| NET POSITION - ENDING | <u>\$ 356,959</u> | <u>\$ 1,066,606</u> | <u>\$ 1,423,565</u> |

The accompanying notes are an integral part of this statement.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

Fund Financial Statements:

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

1. Total assets, liabilities, receipts, or disbursements of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, receipts, or disbursements of the individual governmental or enterprise fund are at least 5% 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 Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funds of the City are described below:

Governmental Funds:

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

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

Liquor, Lodging, and Dining Gross Receipts Tax Fund - To account for the collection of a 1% tax on the gross receipts of lodgings, alcoholic beverages, prepared food, and admissions. This tax shall be used for land acquisition, architectural fees, construction costs, payments for the civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the City per SDCL 10-52A-2. This fund is a major fund.

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

Tax Increment District #1 Debt Service Fund - Accounts for the accumulation of property tax receipts received on the tax increment district and the payment of general long-term debt principal and interest as related to the tax increment district. This fund is a major fund.

Capital Projects Fund - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). This fund is 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.

1. 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.
2. 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.
3. 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 fund is a major fund.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 fund is a major fund.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

The City uses the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Under accounting principles generally accepted in the United States, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using 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.

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

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

D. DEPOSITS AND INVESTMENTS

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

E. INTERFUND ELIMINATIONS AND RECLASSIFICATIONS

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 within the governmental and business-type activities columns of the primary government, the City has also chosen to net all cash balances 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 cash and cash equivalents.

F. 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 report such purchases as capital outlays.

G. 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 debts arising from cash transactions of all funds are not reported as liabilities in the modified cash basis financial statements.

H. REVENUE 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, as applicable.

I. 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.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

J. 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.

K. EQUITY CLASSIFICATIONS

Government-wide Financial Statements:

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

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.

Unrestricted Net Position - All other net assets that do not meet the definition of "restricted."

Fund Financial Statements

Governmental fund equity is classified as fund balance which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted - Includes fund balance amounts that are constrained for specific purposes that 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 nor committed. The City Council has given management the authority to create assignments of fund equity.

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.

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

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

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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 a disbursement is made for purposes for which both restricted and unrestricted net position are available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

NOTE 2 - INTERFUND TRANSFERS, BALANCES, AND ADVANCES

As a result of the City reporting under the modified cash basis of accounting, at times the funds will report negative cash and cash equivalents. Negative cash and cash equivalents represent the amount these funds have overdrawn their portion of pooled cash and subsequently borrowed from other funds.

During the year ended December 31, 2019, the City advanced \$400,000 from the General Fund to the Water Fund. The Water Fund shall repay this amount to the General Fund within 24 months with zero interest.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Deposits

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

Investments

In general, SDCL 4-5-6 permits municipality funds to be invested 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.

Custodial Credit Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. As of December 31, 2019, none of the City's deposits were exposed to custodial credit risk.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

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 General Fund.

NOTE 4 - PROPERTY TAXES

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

NOTE 5 - 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 hybrid 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://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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

**City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019**

NOTE 5 - PENSION PLAN (CONTINUED)

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% joint and survivor benefit, or a 100% 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% 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 third 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 third 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 Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2019, 2018, and 2017, equal to required contributions each year were \$165,161, \$123,290, and \$93,672, respectively.

Pension Liabilities (Assets)

At June 30, 2019, SDRS is 100.09% funded and, accordingly, has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2019 and reported by the City as of December 31, 2019 are as follows:

| | |
|--|--------------------|
| Proportionate Share of Pension Liability | \$ 14,327,794 |
| Less: Proportionate Share of Net Pension Restricted for Pension Benefits | <u>14,339,978</u> |
| Proportionate Share of Net Pension Liability (Asset) | <u>\$ (12,184)</u> |

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 5 - PENSION PLAN (CONTINUED)

At December 31, 2019, the City reported a liability (asset) of \$(12,184) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2019 and the total pension liability (asset) used to calculate the net pension liability (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 0.1149700%, which is an increase of 0.0388944% from its proportion measured as of June 30, 2018.

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

The actuarial assumptions used in the June 30, 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, 2019 (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 | 2.0% | 0.9% |
| Total | <u>100.0%</u> | |

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 5 - PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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%, 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 one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|--------------|-----------------------------|----------------|
| City's Proportionate Share of the Net Pension Liability (Asset) | \$ 2,022,251 | \$ (12,184) | \$ (1,669,880) |

Pension Plan Fiduciary Net Position

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

NOTE 6 - COMMITMENTS

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

| | Balance 12/31/18 | Advances | Payments | Balance 12/31/19 |
|--------------------------------|---------------------|--------------|----------------|---------------------|
| Governmental Funds: | | | | |
| Tax Increment Revenue Bonds | \$ 2,901,171 | \$ - | \$ (1,195,271) | \$ 1,705,900 |
| Tax Increment Bridge Loan | - | 1,186,154 | (469,000) | 717,154 |
| Sales Tax Revenue Bonds | 2,965,000 | - | (220,000) | 2,745,000 |
| Total Governmental Funds | 5,866,171 | 1,186,154 | (1,884,271) | 5,168,054 |
| Business-type Activities: | | | | |
| Revenue Bonds | 3,340,641 | - | (130,190) | 3,210,451 |
| Total Business-type Activities | 3,340,641 | - | (130,190) | 3,210,451 |
| Total | \$ 9,206,812 | \$ 1,186,154 | \$ (2,014,461) | \$ 8,378,505 |

**City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019**

NOTE 6 - COMMITMENTS (CONTINUED)

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

Tax Increment Revenue Bond, Series 2010B, including interest at 3.25%. Due in annual installments of \$194,209 through May 1, 2025. Repayment is financed through the TIF Debt Service Fund (TID #1). Interest paid for the year ended December 31, 2019 was \$23,110. \$ 557,409

Tax Increment Revenue Bond, Series 2010A, including interest at 3.25%. Due in annual installments of \$256,042 through May 2025. Repayment is financed through the TIF Debt Service Fund (TID #1). Interest paid for the year ended December 31, 2019 was \$16,874. 339,501

Tax Increment Revenue Bond, Well, including interest at 1.875%. Due in semi-annual installments of \$133,325 through December 2031. Repayment is financed through the TIF Debt Service Fund (TID #1). Interest paid for the year ended December 31, 2019 was \$23,211. 808,990
1,705,900

Revenue Bonds:

Sales Tax Revenue Bonds, series 2016, including varying interest to 3%, due in annual escalating principal installments and semiannual interest installments through December 2030. Financed through the General Fund or the Liquor, Lodging, and Dining Gross Receipts Tax Fund. Interest paid for the year ended December 31, 2019 was \$59,233. 2,745,000

2006 Water Utility Revenue Bonds through Rural Development, including interest at 4.375%. Due in monthly installments of \$8,182 through November 2046. Financed through the Water Fund. Interest paid for the year ended December 31, 2019 was \$64,844. 1,464,019

2012 State Revolving Fund Revenue Bonds through the South Dakota Conservancy District, including interest at 2.5% and an annual administrative fee of .5%. Due in quarterly installments of \$37,767 through January 2034. Financed through the Water Fund. Interest paid for the year ended December 31, 2019 was \$54,216. 1,746,432
5,955,451

2018 Tax Increment Bridge Loan through CoBank, including interest at a variable rate. Interest payments are due monthly through June 2022. Interest paid for the year ended December 31, 2019 was \$5,079. 717,154
\$ 8,378,505

During the year ended December 31, 2019, the City entered into a contract for work to be performed on East Mall Drive. The total estimated cost of the project is estimated to be \$6,550,000 to be paid with a \$3,200,000 loan from USDA, \$2,350,000 from the South Dakota Department of Transportation, and \$1,000,000 from contributions from two private investors. The project's estimated completion date is July 2020 and the City has paid \$2,493,369 as of December 31, 2019.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 7 - RESTRICTED NET POSITION

The following table shows restricted net position and the purpose for such restrictions as shown in the statement of net position - modified cash basis:

| Purposes | Restricted By | Amount |
|---|-----------------------|---------------------|
| Major Purposes: | | |
| Debt Service Purpose | Debt Covenants | \$ 1,361,665 |
| Construction and City Promotion Purpose | State Law | 2,163,603 |
| Customer Deposits | Contract Restrictions | <u>242,104</u> |
| | | <u>\$ 3,767,372</u> |

NOTE 8 - RISK ASSESSMENT

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

Unemployment Benefits

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

Employee Health Insurance

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

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

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members, to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and to provide them with risk management services, loss control, and risk reduction information, and to obtain lower costs for that coverage. The City’s responsibility is to promptly report and to cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays another 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 another premium to the pool to provide coverage for general liability, officials’ liability, automobile liability and damage, property damage, and law enforcement liability.

City of Box Elder, South Dakota
Notes to the Financial Statements
December 31, 2019

NOTE 8 - RISK ASSESSMENT (CONTINUED)

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.

As of December 31, 2018, the City's balance available to be refunded per the SDPAA was \$132,787 which was an increase (decrease) of \$89,119 from the previous year. The deposit is not recorded in the City's financial statements due to the modified cash basis of accounting elected by the City.

The City carries a \$0 deductible for the governmental general liability coverage and a \$0 deductible for the municipal property coverage.

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.

Worker's Compensation

The City joined the South Dakota Municipal League of Worker's Compensation, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. 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 not exceeded the liability coverage during the past three years.

NOTE 9 - 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.

SUPPLEMENTARY INFORMATION

City of Box Elder, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
For the Year Ended December 31, 2019

| | Budgeted Amounts | | Actual (Budgetary Basis) | Variance Positive (Negative) |
|---|------------------|------------------|--------------------------------|------------------------------------|
| | Original | Final | | |
| RECEIPTS | | | | |
| Taxes: | | | | |
| General Property Taxes | \$ 1,521,500 | \$ 1,521,500 | \$ 1,465,556 | \$ (55,944) |
| General Sales and Use Taxes | 1,998,494 | 1,998,494 | 2,539,864 | 541,370 |
| Amusement Taxes | 500 | 500 | 504 | 4 |
| Penalties and Interest on Delinquent Taxes | 2,000 | 2,000 | 2,621 | 621 |
| Licenses and Permits | 213,720 | 213,720 | 247,967 | 34,247 |
| Intergovernmental Receipts: | | | | |
| Federal Grants | 35,000 | 35,000 | 84,109 | 49,109 |
| State Grants | 258,000 | 258,000 | 264,294 | 6,294 |
| State Shared Receipts: | | | | |
| Bank Franchise Tax | 22,000 | 22,000 | 15,874 | (6,126) |
| Prorate License Fee | 4,000 | 4,000 | 2,477 | (1,523) |
| Liquor Tax Reversion | 60,000 | 60,000 | 50,833 | (9,167) |
| Motor Vehicle Licenses | 90,000 | 90,000 | 84,483 | (5,517) |
| Local Government Highway and Bridge Fund | 32,000 | 32,000 | 31,091 | (909) |
| Other | 5,000 | 5,000 | 6,723 | 1,723 |
| Charges for Goods and Services: | | | | |
| General Government | 8,050 | 8,050 | 5,725 | (2,325) |
| Public Safety | - | - | 48,550 | 48,550 |
| Court Fines and Forfeits | - | - | 835 | 835 |
| Miscellaneous Receipts: | | | | |
| Investment Earnings | 50,000 | 50,000 | 69,703 | 19,703 |
| Contributions | | | | |
| Other | 81,100 | 81,100 | 154,026 | 72,926 |
| TOTAL RECEIPTS | <u>4,381,364</u> | <u>4,381,364</u> | <u>5,075,235</u> | <u>693,871</u> |

See independent auditor's report.

| | Budgeted Amounts | | Actual (Budgetary Basis) | Variance Positive (Negative) |
|---|------------------|---------------------|--------------------------------|------------------------------------|
| | Original | Final | | |
| DISBURSEMENTS | | | | |
| General Government: | | | | |
| Legislative / Executive | 341,170 | 341,170 | 282,285 | 58,885 |
| Financial Administration | 607,474 | 717,474 | 690,371 | 27,103 |
| Public Safety: | | | | |
| Police | 1,761,322 | 1,761,322 | 1,628,769 | 132,553 |
| Public Works: | | | | |
| Highways and Streets | 1,542,377 | 1,452,377 | 1,218,061 | 234,316 |
| Planning and Zoning | 429,907 | 389,907 | 327,528 | 62,379 |
| Culture and Recreation: | | | | |
| Parks | 870,706 | 740,881 | 525,175 | 215,706 |
| Economic Development | - | 149,825 | 144,618 | 5,207 |
| Debt Service | 185,670 | 185,670 | 185,671 | (1) |
| TOTAL DISBURSEMENTS | <u>5,738,626</u> | <u>5,738,626</u> | <u>5,002,478</u> | <u>736,148</u> |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | (1,357,262) | (1,357,262) | 72,757 | 1,430,019 |
| OTHER FINANCING SOURCES | | | | |
| Transfers Out | - | (400,000) | (400,000) | - |
| Sale of Municipal Property | 25,000 | 25,000 | 68,611 | 43,611 |
| Total Other Financing Sources (Uses) | <u>25,000</u> | <u>(375,000)</u> | <u>(331,389)</u> | <u>43,611</u> |
| CHANGE IN FUND BALANCE | (1,332,262) | (1,732,262) | (258,632) | 1,473,630 |
| FUND BALANCE - BEGINNING | <u>1,368,303</u> | <u>1,368,303</u> | <u>1,368,303</u> | <u>-</u> |
| FUND BALANCE - ENDING | <u>\$ 36,041</u> | <u>\$ (363,959)</u> | <u>\$ 1,109,671</u> | <u>\$ 1,473,630</u> |

See independent auditor's report.

City of Box Elder, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - Liquor, Lodging,
and Dining Gross Receipts Tax Fund
For the Year Ended December 31, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual (Budgetary Basis)</u> | <u>Variance Positive (Negative)</u> |
|--|-------------------------|-------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| RECEIPTS | | | | |
| Taxes: | | | | |
| General Sales and Use Taxes | \$ 920,000 | \$ 920,000 | \$ 1,121,801 | \$ 201,801 |
| Miscellaneous Receipts | <u>17,000</u> | <u>17,000</u> | <u>55,889</u> | <u>38,889</u> |
| TOTAL RECEIPTS | <u>937,000</u> | <u>937,000</u> | <u>1,177,690</u> | <u>240,690</u> |
| DISBURSEMENTS | | | | |
| Conservation and Development: | | | | |
| Economic Development | 1,298,293 | 1,510,293 | 1,495,054 | 15,239 |
| Debt Service | <u>99,233</u> | <u>99,233</u> | <u>99,233</u> | <u>-</u> |
| TOTAL DISBURSEMENTS | <u>1,397,526</u> | <u>1,609,526</u> | <u>1,594,287</u> | <u>15,239</u> |
| RECEIPTS OVER (UNDER) DISBURSEMENTS | (460,526) | (672,526) | (416,597) | 255,929 |
| FUND BALANCE - BEGINNING | <u>833,258</u> | <u>833,258</u> | <u>833,258</u> | <u>-</u> |
| FUND BALANCE - ENDING | <u>\$ 372,732</u> | <u>\$ 160,732</u> | <u>\$ 416,661</u> | <u>\$ 255,929</u> |

See independent auditor's report.

City of Box Elder, South Dakota
Notes to the Supplementary Information
For the Year Ended December 31, 2019

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the modified cash basis of accounting. The Budgetary Comparison Schedules present capital outlay expenditures within each function while the Statement of Receipts, Disbursements, and Changes in Fund Balances - Modified Cash Basis presents capital outlay expenditures as a separate function.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. At the first regular Council meeting in September of each year or within ten days thereafter, the City Council 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 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 line item may not exceed 5% 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.
6. The budget for the general fund is adopted on a basis consistent with that which is presented in the financial statements.

See independent auditor's report.

**City of Box Elder, South Dakota
Schedule of Municipal Officials
For the Year Ended December 31, 2019**

MAYOR

Larry Larson

COUNCIL MEMBERS

Dawn Beltran

Rob Griffith

Michael Hanson

Jeff Hollinshead

Michael Knight

John Talich

FINANCE OFFICER

Nicole Schneider

See independent auditor's report.

**City of Box Elder, South Dakota
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019**

| CFDA Number | Cluster/Program Name | Pass-through Entity, if Applicable | Pass-through ID | Amount |
|--|---|---|-----------------|---------------------|
| U.S. Department of Transportation | | | | |
| 20.600 | State and Community Highway Safety | South Dakota Department of Public Safety - Highway Safety | N/A | \$ 16,642 |
| 20.616 | National Priority Safety Programs | South Dakota Department of Public Safety - Highway Safety | N/A | 7,941 |
| | Total U.S. Department of Transportation | | | <u>24,583</u> |
| U.S. Department of Agriculture | | | | |
| 10.760 | Water and Waste Disposal Systems for Rural Communities (Note 3) | N/A | N/A | 1,186,154 |
| | Total U.S. Department of Agriculture | | | <u>1,186,154</u> |
| U.S. Department of the Interior | | | | |
| 15.916 | Outdoor Recreation: Acquisition, Development and Planning | South Dakota Department of Game, Fish, and Parks | N/A | 10,082 |
| | Total U.S. Department of the Interior | | | <u>10,082</u> |
| | TOTAL FEDERAL FINANCIAL ASSISTANCE | | | <u>\$ 1,220,821</u> |

NOTE 1: The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City of Box Elder under programs of the federal government for the year ended December 31, 2019. Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: The City has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3: The City is eligible to draw \$3,200,000 from the Water and Waste Disposal Systems for Rural Communities loan. The City currently draws down funds from a non-federal loan. When the project is complete, the entire loan balance will be bought out with a USDA loan under Water and Waste Disposal Systems for Rural Communities. Therefore, this loan was tested as federal dollars in the current year. During the year ended December 31, 2019, the City drew \$1,186,154 on the loan and made principal payments of \$469,000. The loan balance at December 31, 2019 was \$717,154.

See independent auditor's report.