

CITY OF SISSETON, SOUTH DAKOTA
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2019

CITY OF SISSETON

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*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Commission
City of Sisseton, South Dakota

Report on Financial Statements

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Sisseton, South Dakota (hereinafter referred to as 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Sisseton Housing and Redevelopment Commission of the City of Sisseton, South Dakota, which represents all of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sisseton, South Dakota, as of December 31, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, the schedule of the City's proportionate share of net pension liability/(asset), and the schedule of City's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 City'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's internal control of financial reporting and compliance.

Yankton, South Dakota
September 22, 2020

CITY OF SISSETON

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Municipality of Sisseton's financial report presents our discussion and analysis of the Municipality's financial performance during the fiscal year ended on December 31, 2019. Please read it in conjunction with the Municipality's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the Municipality's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$905,870 more than the \$2,051,266 governmental expenditures. This is an improvement over the prior year when revenues exceeded expenditures by \$601,276.
- The total cost of the City's governmental activities' programs increased by 2.44%.
- In the Municipality's business-type activities, revenue increased by 3.79% to \$2,389,922 while expense increased only 0.59% to 1,856,261.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has four proprietary funds – the Liquor Fund, the Water Fund, the Sewer Fund and the Solid Waste Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Figure A-2

Major Features of Sisseton's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds and the fiduciary component units)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water, sewer, solid waste systems and liquor store.
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred inflows of resources, liabilities, and deferred outflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position.

- Increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

- **Governmental Activities** -- This category includes the most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- **Business-type Activities** -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water, sewer, solid waste and liquor systems are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

- **Governmental Funds** – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased by 7% between fiscal year 2018 and 2019 – increasing by \$1,456,417. (See Table A-1).

The Condensed Statement of Net Position table shows a 9% increase in the net position of the governmental activities and a 5% increase in the Business-Type Activities.

	Governmental Activities		Business-Type Activities		Total	
	2018	2019	2018	2019	2018	2019
Current and Other Assets	\$ 7,127,532	\$ 7,824,092	\$ 6,023,968	\$ 5,992,919	\$ 13,151,500	\$ 13,817,011
Capital Assets	4,120,453	4,506,911	3,697,455	4,265,650	7,817,908	8,772,561
Total Assets	11,247,985	12,331,003	9,721,423	10,258,569	20,969,408	22,589,572
Deferred Outflows	231,317	149,651	89,511	57,910	320,828	207,561
Long-Term Liabilities	50,104	55,294	27,569	28,999	77,673	84,293
Other Liabilities	68,365	82,811	97,357	104,794	165,722	187,605
Total Liabilities	118,469	138,105	124,926	133,793	243,395	271,898
Deferred Inflows	57,102	72,948	22,097	28,228	79,199	101,176
Net investment in capital assets	4,120,453	4,506,911	3,697,455	4,265,650	7,817,908	8,772,561
Restricted	351,288	271,686	67,691	30,973	418,979	302,659
Unrestricted	6,831,990	7,491,004	5,898,765	5,857,835	12,730,755	13,348,839
Total Net Position	\$ 11,303,731	\$ 12,269,601	\$ 9,663,911	\$ 10,154,458	\$ 20,967,642	\$ 22,424,059
Beginning Net Position	10,633,861	11,303,731	9,264,830	9,663,911	19,898,691	20,967,642
Change in Net Position	\$ 669,870	\$ 965,870	\$ 399,081	\$ 490,547	\$ 1,068,951	\$ 1,456,417
Percentage Change	6%	9%	4%	5%	5%	7%

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the city, consisting of compensated absences payable have been reported in this manner on the Statement of Net Position. The city's assets plus deferred inflows of resources, less liabilities and deferred inflows of resources is its net position.

Changes in Net Position

The City's revenues totaled \$5,363,943. The total revenue increased \$440,725. (See Table A-2.) Well over half of the City's revenue comes from charges for services and taxes, with 45 cents of every dollar raised coming from charges for services (liquor, water, sewer and solid waste operations) and 38 cents of every dollar raised comes from some type of tax. (See figure A-3). The rest comes from state and federal grants for operating and capital purposes, state-shared revenues, investment earnings and miscellaneous revenue.

The total cost of all programs and services increased by \$53,259. The City's expenses cover a range of services, with 39% related to public services (road maintenance, water services, solid waste services and sewer system services) (See figure A-4).

Table A-2 and the narrative that follows consider the operations of the Governmental and Business-Type Activities.

Table A-2 Condensed Statement of Activities						
	Governmental Activities		Business-Type Activities		Total	
	2018	2019	2018	2019	2018	2019
Revenues						
Program Revenues						
Charges for Services	\$ 61,731	\$ 99,747	\$ 2,248,802	\$ 2,297,977	\$ 2,310,533	\$ 2,397,724
Operating Grants	138,983	103,823	-	-	138,983	103,823
Capital Grants	147,157	191,906	-	16,886	147,157	208,792
General Revenues						
Taxes	1,994,089	2,039,309	-	-	1,994,089	2,039,309
State Shared Revenues	46,037	53,465	-	-	46,037	53,465
Investment Earnings	64,778	111,591	53,831	91,944	118,609	203,535
Miscellaneous	150,917	357,295	16,893	-	167,810	357,295
Total Revenues	2,603,692	2,957,136	2,319,526	2,406,807	4,923,218	5,363,943
Expenses						
General Government	258,128	255,572	-	-	258,128	255,572
Public Safety	668,646	704,678	-	-	668,646	704,678
Public Works	634,420	666,603	-	-	634,420	666,603
Health and Welfare	10,732	9,268	-	-	10,732	9,268
Culture and Recreation	239,882	254,439	-	-	239,882	254,439
Development	197,014	160,706	-	-	197,014	160,706
Liquor Fund	-	-	983,142	988,705	983,142	988,705
Water Fund	-	-	333,269	314,667	333,269	314,667
Sewer Fund	-	-	238,396	252,981	238,396	252,981
Solid Waste Fund	-	-	290,638	299,907	290,638	299,907
Total Expenses	2,008,822	2,051,266	1,845,445	1,856,260	3,854,267	3,907,526

Figure A-3 Sisseton Sources of Revenues for Fiscal Year 2019

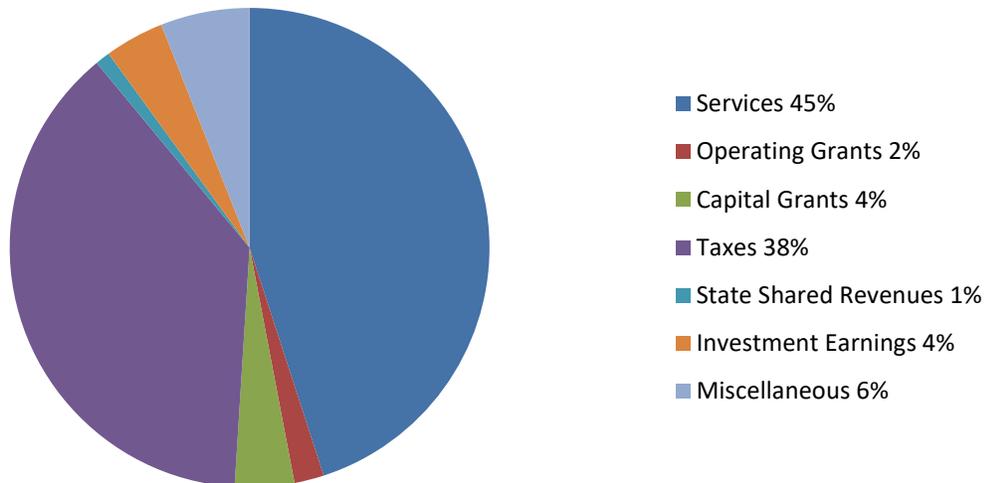
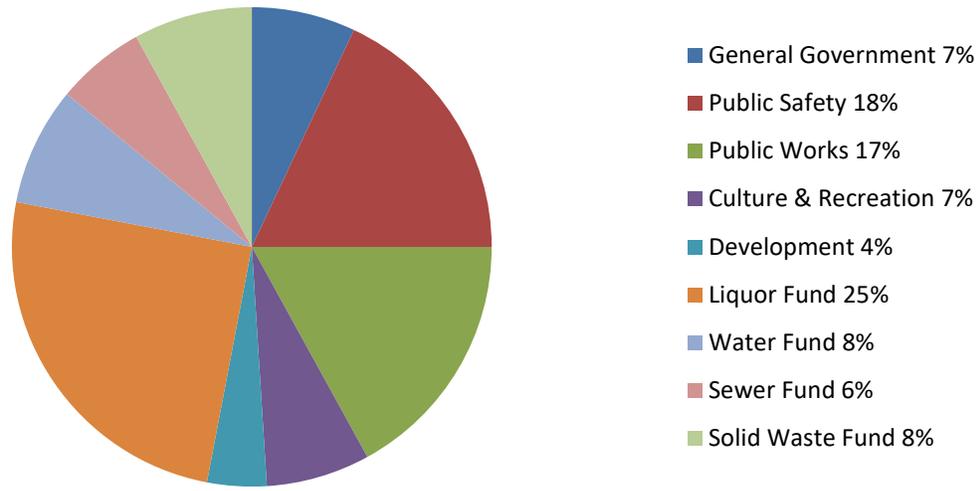


Figure A-4 Sisseton Functional Expenses for Fiscal Year 2019



Governmental Activities

Revenues of the City's Governmental Activities increased 13.6% and expenses increased 2.1%. Factors contributing to these results included:

- There was an overall increase in program revenues in 2019 of \$47,605. However, general revenues attributed to the majority of the increase in revenue with an increase of \$305,839. 2019 saw minimal increases in taxes and state share revenues and larger increases in investment earnings and private donations. The Sisseton Youth Baseball Association raised funds to contribute to a Baseball Complex Project for the City.
- A minimal increase in expenses occurred in Public Safety, Public Works and Recreation departments.

Business-type Activities

Revenues of the City's Business-Type Activities increased 3.76% from 2018 with total revenues of \$2,406,807 and expenses increased 0.59% with total expenses of \$1,856,260.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains two governmental funds – General and Lodging Sales Tax, and four business type funds – Water, Sewer, Sanitation and Liquor Funds.

GENERAL BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget two times. These amendments fell into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations to prevent budget overruns.

CAPITAL ASSET ADMINISTRATION

By the end of 2019, the City had invested \$8,772,561 net of depreciation, in a broad range of capital assets, including, land, buildings, various machinery and equipment (See Table A-3). This amount represents a net increase (including additions and deductions) of \$954,653, or 12.2%, over the last year.

	Governmental Activities		Business-Type Activities		Total	
	2018	2019	2018	2019	2018	2019
	Land	\$ 310,631	\$ 310,631	\$ 234,602	\$ 234,602	\$ 545,233
Construction in Progress	150,912	665,156	74,227	969,758	225,139	1,634,914
Infrastructure	2,221,990	2,061,019	-	-	2,221,990	2,061,019
Buildings and Structures	880,405	844,158	1,765,615	1,599,405	2,646,020	2,443,563
Furniture and Equipment	556,515	625,947	1,623,011	1,461,885	2,179,526	2,087,832
Capital Assets (net)	\$ 4,120,453	\$ 4,506,911	\$ 3,697,455	\$ 4,265,650	\$ 7,817,908	\$ 8,772,561

This year's major capital asset additions included:

- In the Governmental Activities there were crack sealing and street patching projects, a new freightliner fire truck, a new furnace for the fire hall and a new John Deere lawn mower for the ball fields. Construction in progress includes professional services for Airport runway reconstruction project, baseball complex project and storm sewer drainage channel.
- In the Business-Type Activities construction in progress includes Hwy 10 water and sewer main replacement project.

LONG-TERM LIABILITIES

At year-end the City had \$84,293 in long-term obligations. This is an increase of 8.52% as shown on Table A-4 below.

	Governmental Activities		Business-Type Activities		Total Change	
	2018	2019	2018	2019	Dollar Change	Percentage Change
	Compensated Absences	\$ 50,104	\$ 55,294	\$ 27,569	\$ 28,999	\$ 6,620
Total Long-Term Liabilities	\$ 50,104	\$ 55,294	\$ 27,569	\$ 28,999	\$ 6,620	8.52%

The City is liable for the accrued vacation leave payable to all full-time employees who have been employed for more than one year. The increase is due to an increase in the amount of leave accumulated and outstanding at the end of the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Under the state mandated property tax freeze, property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower. The City Council decided to make no change in the property tax levy.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The city has experienced a 9.3% increase in general sales tax revenue from the previous year, as well as a 2.46% increase in the 1% gross receipts sales tax.

The City's adopted General Fund budget for the next fiscal year will decrease 6.2% or \$154,325 to \$2,333,410.

The City's business-type activities (water, sewer, solid waste and liquor operations) expect that the results for 2020 will remain stable. Water, sewer and garbage rates will increase 3% in 2020.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Sisseton Finance Office, 406 2nd Ave. West, Sisseton, SD 57262.

CITY OF SISSETON

STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Primary Government			
	Governmental Activities	Business- Type Activities	Total	Component Unit
ASSETS				
Cash and cash equivalents	\$ 457,317	\$ 1,540,219	\$ 1,997,536	\$ 682,170
Certificates of deposit	513,377	500,000	1,013,377	-
Investments	6,465,528	3,600,000	10,065,528	-
Receivables, net	93,197	171,395	264,592	-
Due from other governments	209,606	-	209,606	-
Inventories	4,210	165,177	169,387	-
Prepaid expenses	38,517	14,837	53,354	2,878
Deposits	39,004	-	39,004	12,948
Net pension asset	3,336	1,291	4,627	743
Capital assets:				
Capital assets not being depreciated	975,787	1,204,361	2,180,148	120,786
Capital assets being depreciated, net	3,531,124	3,061,290	6,592,414	709,673
Total capital assets	4,506,911	4,265,650	8,772,561	830,459
Total assets	12,331,003	10,258,569	22,589,572	1,529,198
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	149,651	57,910	207,561	32,593
LIABILITIES				
Accounts payable	61,165	95,574	156,739	26,708
Accrued expenses	21,646	7,561	29,207	19,556
Customer deposits	-	-	-	13,304
Unearned revenue	-	1,659	1,659	2,458
Long-term liabilities:				
Portion due or payable within one year:				
Compensated absences	33,176	17,400	50,576	5,935
Portion due or payable after one year:				
Compensated absences	22,118	11,599	33,717	9,858
Total liabilities	138,105	133,793	271,898	77,819
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	72,948	28,228	101,176	7,934
NET POSITION				
Investment in capital assets	4,506,911	4,265,650	8,772,561	830,459
Restricted for:				
Economic development	152,643	-	152,643	-
Insurance deposit	39,004	-	39,004	-
SDRS pension related accounts	80,039	30,973	111,012	25,402
Unrestricted	7,491,004	5,857,835	13,348,839	620,177
Total net position	\$ 12,269,601	\$ 10,154,458	\$ 22,424,059	\$ 1,476,038

The accompanying notes are an
integral part of these financial statements

CITY OF SISSETON
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 255,572	\$ 14,259	\$ -	\$ -	\$ (241,313)		\$ (241,313)	
Public safety	704,678	31,499	-	-	(673,179)		(673,179)	
Public works	666,603	41,438	103,823	191,906	(329,436)		(329,436)	
Health and welfare	9,268	-	-	-	(9,268)		(9,268)	
Culture and recreation	254,439	12,551	-	-	(241,888)		(241,888)	
Conservation and development	160,706	-	-	-	(160,706)		(160,706)	
Total governmental activities	<u>2,051,266</u>	<u>99,747</u>	<u>103,823</u>	<u>191,906</u>	<u>(1,655,790)</u>		<u>(1,655,790)</u>	
Business-type activities:								
Liquor	988,705	1,134,448	-	-	-	\$ 145,743	145,743	
Water	314,667	472,113	-	16,886	-	174,332	174,332	
Waste water	252,981	406,427	-	-	-	153,446	153,446	
Solid waste	299,907	284,989	-	-	-	(14,918)	(14,918)	
Total business-type activities	<u>1,856,260</u>	<u>2,297,977</u>	<u>-</u>	<u>16,886</u>	<u>-</u>	<u>458,603</u>	<u>458,603</u>	
Total primary government	<u>\$ 3,907,526</u>	<u>\$ 2,397,724</u>	<u>\$ 103,823</u>	<u>\$ 208,792</u>	<u>(1,655,790)</u>	<u>458,603</u>	<u>(1,197,187)</u>	
Component Unit:								
Sisseton Housing and Redevelopment	<u>\$ 624,359</u>	<u>\$ 360,082</u>	<u>\$ 204,922</u>	<u>\$ 50,712</u>				<u>\$ (8,643)</u>
General revenues:								
Taxes:								
Property taxes					775,291	-	775,291	-
Sales taxes					1,264,018	-	1,264,018	-
State and county shared revenues					53,465	-	53,465	-
Contributions not restricted to specific programs					283,255	-	283,255	-
Unrestricted investment earnings					111,591	91,944	203,535	8,018
Miscellaneous					74,040	-	74,040	-
Transfers					60,000	(60,000)	-	-
Total general revenues and transfers					<u>2,621,660</u>	<u>31,944</u>	<u>2,653,604</u>	<u>8,018</u>
Change in net position					965,870	490,547	1,456,417	(625)
Net position - beginning					<u>11,303,731</u>	<u>9,663,911</u>	<u>20,967,642</u>	<u>1,476,663</u>
Net position - ending					<u>\$ 12,269,601</u>	<u>\$ 10,154,458</u>	<u>\$ 22,424,059</u>	<u>\$ 1,476,038</u>

The accompanying notes are an integral part of these financial statements

CITY OF SISSETON
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	<u>Major</u>	<u>Non-Major</u>	<u>Total</u>
	<u>General</u>	<u>Sales Tax</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 312,341	\$ 144,976	\$ 457,317
Certificates of deposit	513,377	-	513,377
Investments	6,465,528	-	6,465,528
Receivables, (net of allowances for uncollectibles, if any);			
Property taxes - delinquent	76,664	-	76,664
Accounts	13,482	-	13,482
Interest	2,996	55	3,051
Due from other governments	199,851	9,755	209,606
Inventory	4,210	-	4,210
Prepaid expenses	38,517	-	38,517
Deposits	39,004	-	39,004
Total assets	<u>\$ 7,665,970</u>	<u>\$ 154,786</u>	<u>\$ 7,820,756</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 59,022	\$ 2,143	\$ 61,165
Accrued expenses	21,646	-	21,646
Total liabilities	<u>80,668</u>	<u>2,143</u>	<u>82,811</u>
Deferred inflows of resources:			
Unavailable revenue - property taxes	76,664	-	76,664
Total inflows of resources	<u>76,664</u>	<u>-</u>	<u>76,664</u>
Fund balance:			
Nonspendable:			
Inventory	4,210	-	4,210
Prepaid expenses	38,517	-	38,517
Insurance deposit	39,004	-	39,004
Restricted:			
Economic development	-	152,643	152,643
Assigned:			
Subsequent year's budget	532,000	-	532,000
Capital outlay	123,100	-	123,100
Unassigned	6,771,807	-	6,771,807
Total fund balances	<u>7,508,638</u>	<u>152,643</u>	<u>7,661,281</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,665,970</u>	<u>\$ 154,786</u>	<u>\$ 7,820,756</u>

The accompanying notes are an integral part of these financial statements

CITY OF SISSETON

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

Total fund balances for governmental funds \$ 7,661,281

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	310,631	
Construction in progress		665,156	
Building and improvements, net of \$684,586 accumulated depreciation		844,158	
Equipment, net of \$1,772,649 accumulated depreciation		625,947	
Infrastructure, net of \$3,013,667 accumulated depreciation		<u>2,061,019</u>	
Total capital assets			4,506,911

Assets such as taxes receivable and special assessment receivables are not available to pay for current period expenditures and therefore are deferred in the funds. 76,664

Net pension liability (asset) reported in governmental activities is not an available financial resource and therefore is not reported in the funds. 3,336

Pension related deferred outflows are components of the net pension liability (asset) and therefore are not reported in the funds. 149,651

Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in current period and therefore are not reported in the funds. Balances at December 31, 2019 are:

Compensated absences		<u>55,294</u>	
Total long-term liabilities			(55,294)

Pension related deferred inflows are components of the net pension liability (asset) and therefore are not reported in the funds. (72,948)

Total net position of governmental activities \$ 12,269,601

CITY OF SISSETON

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

	<u>Major</u>	<u>Non-Major</u>	<u>Total</u>
	<u>General</u>	<u>Sales Tax</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
REVENUES			
Taxes	\$ 1,961,729	\$ 76,029	\$ 2,037,758
Licenses and permits	14,259	-	14,259
Intergovernmental revenue	349,195	-	349,195
Charges for goods and services	59,135	-	59,135
Fines and fees	760	-	760
Miscellaneous revenue	488,294	2,130	490,424
Total revenues	<u>2,873,372</u>	<u>78,159</u>	<u>2,951,531</u>
EXPENDITURES			
General government	215,221	-	215,221
Public safety	575,317	-	575,317
Public works	332,444	-	332,444
Health and welfare	9,268	-	9,268
Culture and recreation	228,183	-	228,183
Conservation and development	97,397	63,812	161,209
Capital outlay	813,087	-	813,087
Total expenditures	<u>2,270,917</u>	<u>63,812</u>	<u>2,334,729</u>
Excess of revenues over expenditures	<u>602,455</u>	<u>14,347</u>	<u>616,802</u>
OTHER FINANCING SOURCES			
Transfers in	60,000	-	60,000
Sale of capital assets	4,054	-	4,054
Total other financing sources	<u>64,054</u>	<u>-</u>	<u>64,054</u>
Net change in fund balances	666,509	14,347	680,856
CHANGE IN NONSPENDABLE	(2,912)	-	(2,912)
Fund balances - beginning	<u>6,845,041</u>	<u>138,296</u>	<u>6,983,337</u>
Fund balances - ending	<u>\$ 7,508,638</u>	<u>\$ 152,643</u>	<u>\$ 7,661,281</u>

The accompanying notes are an
 integral part of these financial statements

CITY OF SISSETON

**RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Net change in fund balances - total governmental funds	\$	680,856
<p>The change in net position reported for governmental activities in the statement of activities is different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$813,087) exceeded depreciation expense (\$426,629) in the current period.</p>		386,458
<p>Governmental funds recognize property taxes as revenue in the fiscal period for which they were levied provided they are collected within 45 days, but the statement of activities includes the property taxes as revenue in the period for which the taxes are levied.</p>		1,551
<p>Individual governmental funds recognize inventory using the purchase method. In the the government wide financial statements, however, inventory is presented using the consumption method. This adjustment recognizes the change in inventory in the individual governmental funds.</p>		(2,912)
<p>Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. The adjustment combines the net changes of these balances:</p>		
Compensated absences	\$ (5,190)	
Combined adjustment		(5,190)
<p>Changes in the net pension liability (asset) and the pension related deferred inflows and outflows are direct components of pension liability (asset) and are not reflected in the governmental funds.</p>		<u>(94,893)</u>
Change in net position of governmental activities	\$	<u>965,870</u>

The accompanying notes are an
integral part of these financial statements

CITY OF SISSETON

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2019

	Enterprise Funds				Total
	Liquor	Water	Waste Water	Solid Waste	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 489,292	\$ 296,614	\$ 384,851	\$ 369,462	\$ 1,540,219
Certificates of deposit	-	-	500,000	-	500,000
Investments	700,000	2,000,000	900,000	-	3,600,000
Receivables, (net of allowances for uncollectibles, if any):					
Accounts	5,295	70,547	56,172	36,884	168,898
Interest	500	888	943	166	2,497
Inventories:					
Supplies	-	21,846	1,563	-	23,409
Resale	141,768	-	-	-	141,768
Prepaid expenses	6,147	4,477	1,574	2,639	14,837
Total current assets	<u>1,343,002</u>	<u>2,394,372</u>	<u>1,845,103</u>	<u>409,151</u>	<u>5,991,628</u>
Noncurrent assets:					
Net pension (asset)	357	245	245	444	1,291
Capital assets:					
Land	6,843	17,776	209,983	-	234,602
Construction in progress	-	43,012	926,746	-	969,758
Buildings and improvements	138,072	2,262,707	3,809,875	203,744	6,414,398
Machinery and equipment	15,199	3,196,212	719,127	418,573	4,349,111
Less accumulated depreciation	<u>(59,570)</u>	<u>(3,531,562)</u>	<u>(3,564,163)</u>	<u>(546,924)</u>	<u>(7,702,219)</u>
Total noncurrent assets	<u>100,901</u>	<u>1,988,390</u>	<u>2,101,813</u>	<u>75,837</u>	<u>4,266,941</u>
Total assets	<u>1,443,903</u>	<u>4,382,762</u>	<u>3,946,916</u>	<u>484,988</u>	<u>10,258,569</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension related deferred outflows	<u>15,982</u>	<u>11,001</u>	<u>11,001</u>	<u>19,926</u>	<u>57,910</u>
LIABILITIES					
Current liabilities:					
Accounts payable	79,618	7,075	115	8,766	95,574
Accrued wages payable	3,011	1,181	1,180	2,189	7,561
Unearned revenue	-	-	-	1,659	1,659
Compensated absences - current portion	1,153	8,112	-	8,135	17,400
Total current liabilities	<u>83,782</u>	<u>16,368</u>	<u>1,295</u>	<u>20,749</u>	<u>122,194</u>
Noncurrent liabilities:					
Compensated absences	<u>768</u>	<u>5,408</u>	<u>-</u>	<u>5,423</u>	<u>11,599</u>
Total noncurrent liabilities	<u>768</u>	<u>5,408</u>	<u>-</u>	<u>5,423</u>	<u>11,599</u>
Total liabilities	<u>84,550</u>	<u>21,776</u>	<u>1,295</u>	<u>26,172</u>	<u>133,793</u>
DEFERRED INFLOWS OF RESOURCES					
Pension related deferred inflows	<u>7,791</u>	<u>5,362</u>	<u>5,362</u>	<u>9,713</u>	<u>28,228</u>
NET POSITION					
Investment in capital assets	100,544	1,988,145	2,101,568	75,393	4,265,650
Restricted	8,548	5,884	5,884	10,657	30,973
Unrestricted	<u>1,258,452</u>	<u>2,372,596</u>	<u>1,843,808</u>	<u>382,979</u>	<u>5,857,835</u>
Total net position	<u>\$ 1,367,544</u>	<u>\$ 4,366,625</u>	<u>\$ 3,951,260</u>	<u>\$ 469,029</u>	<u>\$ 10,154,458</u>

The accompanying notes are an integral part of these financial statements

CITY OF SISSETON

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

	Enterprise Funds				Total
	Liquor	Water	Waste Water	Solid Waste	
OPERATING REVENUES					
Charges for goods and services	\$ 1,134,423	\$ 472,113	\$ 406,427	\$ 284,989	\$ 2,297,952
Other operating revenue	25	-	-	-	25
Total operating revenues	<u>1,134,448</u>	<u>472,113</u>	<u>406,427</u>	<u>284,989</u>	<u>2,297,977</u>
OPERATING EXPENSES					
Personal services	133,726	76,500	74,816	139,266	424,308
Cost and materials	825,450	82,231	5,905	104,391	1,017,977
Other current expenses	25,535	13,424	28,742	18,938	86,639
Depreciation	3,994	142,512	143,518	37,312	327,336
Total operating expenses	<u>988,705</u>	<u>314,667</u>	<u>252,981</u>	<u>299,907</u>	<u>1,856,260</u>
Operating income (loss)	<u>145,743</u>	<u>157,446</u>	<u>153,446</u>	<u>(14,918)</u>	<u>441,717</u>
NONOPERATING REVENUES					
Interest income	18,332	33,433	34,642	5,537	91,944
Rental income	-	-	16,886	-	16,886
Total nonoperating revenues	<u>18,332</u>	<u>33,433</u>	<u>51,528</u>	<u>5,537</u>	<u>108,830</u>
Income (loss) before contributions and transfers	<u>164,075</u>	<u>190,879</u>	<u>204,974</u>	<u>(9,381)</u>	<u>550,547</u>
Transfer out	<u>(60,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(60,000)</u>
Change in net position	104,075	190,879	204,974	(9,381)	490,547
Net position - beginning	<u>1,263,469</u>	<u>4,175,746</u>	<u>3,746,286</u>	<u>478,410</u>	<u>9,663,911</u>
Net position - ending	<u>\$ 1,367,544</u>	<u>\$ 4,366,625</u>	<u>\$ 3,951,260</u>	<u>\$ 469,029</u>	<u>\$ 10,154,458</u>

The accompanying notes are an
integral part of these financial statements

CITY OF SISSETON

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS - PAGE 1 OF 2
 YEAR ENDED DECEMBER 31, 2019

	Enterprise Funds				Total
	Liquor	Water	Waste Water	Solid Waste	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 1,134,936	\$ 461,349	\$ 393,468	\$ 281,107	\$ 2,270,860
Payments to suppliers	(861,088)	(92,900)	(34,537)	(123,743)	(1,112,268)
Payments to employees	(121,837)	(67,626)	(67,525)	(127,345)	(384,333)
Net cash provided by operating activities	<u>152,011</u>	<u>300,823</u>	<u>291,406</u>	<u>30,019</u>	<u>774,259</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers out	(60,000)	-	-	-	(60,000)
Net cash (used in) noncapital financing activities	<u>(60,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(60,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Other receipts	-	-	16,886	-	16,886
Purchase of capital assets	-	(799)	(894,732)	-	(895,531)
Net cash (used in) capital and related financing activities	<u>-</u>	<u>(799)</u>	<u>(877,846)</u>	<u>-</u>	<u>(878,645)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment income	19,511	35,646	37,373	5,884	98,414
Redemption of certificates of deposit	-	900,000	98,900	-	998,900
Purchase of investments	(700,000)	(1,500,000)	(400,000)	-	(2,600,000)
Net cash (used in) provided by investing activities	<u>(680,489)</u>	<u>(564,354)</u>	<u>(263,727)</u>	<u>5,884</u>	<u>(1,502,686)</u>
Net change in cash and cash equivalents	(588,478)	(264,330)	(850,167)	35,903	(1,667,072)
Balances - beginning of the year	<u>1,077,770</u>	<u>560,944</u>	<u>1,235,018</u>	<u>333,559</u>	<u>3,207,291</u>
Balances - end of the year	<u>\$ 489,292</u>	<u>\$ 296,614</u>	<u>\$ 384,851</u>	<u>\$ 369,462</u>	<u>\$ 1,540,219</u>

The accompanying notes are an integral part of these financial statements

CITY OF SISSETON

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS - PAGE 2 OF 2
 YEAR ENDED DECEMBER 31, 2019

	Enterprise Funds				
	Liquor	Water	Waste Water	Solid Waste	Total
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 145,743	\$ 157,446	\$ 153,446	\$ (14,918)	\$ 441,717
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	3,994	142,512	143,518	37,312	327,336
Change in operating assets and liabilities:					
(Increase) decrease in:					
Accounts receivable	488	(10,764)	(12,959)	(3,415)	(26,650)
Inventories	(13,187)	1,234	-	-	(11,953)
Prepaid expenses	(227)	(1,415)	(5)	(129)	(1,776)
Pension related accounts	10,134	6,975	6,975	12,634	36,718
Increase (decrease) in:					
Accounts payable	3,311	2,936	115	(285)	6,077
Accrued expenses	802	317	316	392	1,827
Unearned revenue	-	-	-	(467)	(467)
Compensated absences	953	1,582	-	(1,105)	1,430
Net cash provided by operating activities	<u>\$ 152,011</u>	<u>\$ 300,823</u>	<u>\$ 291,406</u>	<u>\$ 30,019</u>	<u>\$ 774,259</u>

The accompanying notes are an
 integral part of these financial statements

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The reporting entity of the City of Sisseton, South Dakota (City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board/City Commission appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The discretely presented component unit is reported in a separate column in the combined financial statements to emphasize it is legally separate from the City.

The Housing and Redevelopment Commission of the City of Sisseton, South Dakota was organized pursuant to the Municipal Housing and Redevelopment Act of South Dakota as a public housing agency formed to provide financial assistance for low income public housing pursuant to the United States Housing Act of 1937, (42 U.S.C. 1401, et seq.). The mayor and city commissioners appoint the five members of the component unit's board and a financial benefit or burden relationship exists.

Complete financial statements for the component unit may be obtained at the unit's administrative offices.

Sisseton Housing and Redevelopment Commission
123 East Chestnut Street
Sisseton, South Dakota 57262

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in the Financial Reporting Entity above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in the Financial Reporting Entity above.

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

Fund Financial Statements:

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

1. Total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Fund Financial Statements, continued:

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

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

Governmental Funds:

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

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

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.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued

Proprietary Funds (continued):

- 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).

The City reports the following **major governmental funds**:

General Fund - See the description above. The General Fund is always considered to be a major fund.

The remaining governmental fund is not considered a major fund: Entertainment Tax Fund. This fund is reported on the fund financial statements as a “Non-Major Governmental Fund”.

The City reports the following **major enterprise funds**:

Liquor Fund - financed primarily by user charges this fund accounts for the operation of the municipal liquor store and related activities.

Water Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal water system and related facilities

Waste Water Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal waste water system and related facilities.

Solid Waste Fund - financed primarily by user charges this fund accounts for the operation of the municipal solid waste collection system and related activities.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type and component unit activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

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

Basis of Accounting

Government-wide Financial Statements:

In the government-wide financial statements, governmental, business-type, and component unit activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

All governmental funds financial statements are presented on the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the City is 45 days. The revenues which are accrued at December 31, 2019 are property taxes and sales taxes.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

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

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

All proprietary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following 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.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Inventories

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

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

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, purchases of supply inventory items are recorded as expenditures at the time individual inventory items are purchased. Reported inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Capital Assets

Government-wide Financial Statements:

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

The total December 31, 2019 balance of governmental activities capital assets includes approximately twenty percent for which the costs were determined by estimates of the original costs. The total December 31, 2019 propriety fund business-type capital assets includes approximately five percent for which the costs were determined by estimations of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

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

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with accounting principles generally accepted in the United States, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with accounting principles generally accepted in the United States.

Depreciation of all exhaustible capital assets is charged as an allocated expense against operations in the government-wide financial statements, and in the proprietary fund financial statements. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method.

The range of estimated useful lives of capital assets by asset class is as follows:

Land and land rights	Not depreciated
Buildings and structures	15 – 99 years
Machinery, furniture and equipment	3 – 15 years
Infrastructure	5 – 40 years
Improvements	5 – 15 years

Fund Financial Statements:

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

Long-Term Liabilities

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

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-Term Liabilities, continued

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. The long-term liabilities primarily consist of revenue bonds and compensated absences.

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

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

Pensions

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

Program Revenues

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

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Program Revenues, 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.

Proprietary Funds Revenue and Expense Classifications

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

Equity Classifications

Government-wide Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Nonspendable, Restricted, Committed, Assigned, and Unassigned components.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Application of Net Position

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

Fund Balance Classification Policies and Procedures

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

1. Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. 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.
4. 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 by the City Council.
5. 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 expenditures are made.

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

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

For purposes of reporting the Statements of Cash Flows, the City includes all cash accounts not subject to withdrawal restrictions or penalties, treasury bills, and money market funds with an original maturity of three months or less as cash and cash equivalents on the accompanying balance sheets. Certificates of deposit, regardless of maturity, are not considered to be cash and cash equivalents.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

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

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

Investments - In general, SDCL 4-5-6 permits city funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load, fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall 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.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. DEPOSITS AND INVESTMENTS, continued

Fair Value Measurement – The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of December 31, 2019, all of the City’s investments are in an internal deposit and investment pool as follows:

<u>Investment</u>	<u>Rating</u>	<u>Maturities</u>	<u>Fair Value Level</u>	<u>Fair Value</u>
External Investment Pools:				
SD FIT	Not Rated	-	2	<u>\$ 10,065,528</u>
Total				<u>\$ 10,065,528</u>

The South Dakota Public Fund Investment Trust (SD FIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value (NAV) of the SD FIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. NAV is considered the Fair Value Level.

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

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial risk. As of December 31, 2019, the City's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that is in the possession of an outside party.

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

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

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

2. DEPOSITS AND INVESTMENTS, continued

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

Custodial Credit Risk - Deposits – Component Unit - As of December 31, 2019, the Component Unit's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

3. RECEIVABLES

Receivables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Allowances for uncollectible accounts receivable in the governmental and enterprise funds are calculated based on historical trend data. For the year ended December 31, 2019, the allowance for doubtful accounts in the governmental and enterprise funds totaled \$ -0-.

4. CHANGES IN CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 310,631	\$ -	\$ -	\$ 310,631
Construction in Progress	150,912	514,244	-	665,156
Total capital assets not being depreciated	461,543	514,244	-	975,787
<i>Capital assets being depreciated:</i>				
Infrastructure	4,977,576	97,110	-	5,074,686
Buildings and improvements	1,528,744	-	-	1,528,744
Equipment	2,221,859	201,733	(24,996)	2,398,596
Total capital assets being depreciated	8,728,179	298,843	(24,996)	9,002,026
Less accumulated depreciation for:				
Infrastructure	2,755,586	258,081	-	3,013,667
Buildings and improvements	648,339	36,247	-	684,586
Equipment	1,665,344	132,301	(24,996)	1,772,649
Total accumulated depreciation	5,069,269	426,629	(24,996)	5,470,902
Total capital assets being depreciated, net	3,658,910	(127,786)	-	3,531,124
<i>Capital assets, net - Governmental Activities</i>	<u>\$4,120,453</u>	<u>\$ 386,458</u>	<u>\$ -</u>	<u>\$4,506,911</u>

CITY OF SISSETON

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

4. CHANGES IN CAPITAL ASSETS, continued

Depreciation expense was charged to functions as follows:

Governmental Activities:

General Government	\$ 30,487
Public Safety	76,037
Public Works	305,661
Culture and Recreation	<u>14,444</u>

Total Depreciation Expense - Governmental Activities \$ 426,629

Construction in progress in the governmental activities includes the following:

Three Airport Improvement Projects are in progress related to runway reconstruction. A total of \$505,111 has been spent on the project as of December 31, 2019, of which \$146,079 has been capitalized to land costs, leaving \$359,032 in construction in progress. Approximately \$2,900,000 in estimated costs remain to complete the project. Federal and state grants will provide 95% of the funding of eligible costs with the remainder provided by the General Fund.

A Ballpark Improvement Project is in progress with \$296,124 being spent through December 31, 2019. Approximately \$75,000 in estimated costs remain to complete the project. These costs will be provided through a state grant and local donations.

A Drainage Channel Project is in progress with \$10,000 in design and engineering costs spent through December 31, 2019. Approximately \$90,000 in estimated costs remain to complete the project. These funds will be provided by the General Fund.

A summary of changes in Business-Type Activities' capital assets for the year ended December 31, 2019, is as follows:

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

4. CHANGES IN CAPITAL ASSETS, continued

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 234,602	\$ -	\$ -	\$ 234,602
Construction in Progress	74,227	895,531	-	969,758
Total capital assets not being depreciated	308,829	895,531	-	1,204,360
<i>Capital assets being depreciated:</i>				
Buildings and improvements	6,414,398	-	-	6,414,398
Equipment	4,349,111	-	-	4,349,111
Total capital assets being depreciated	10,763,509	-	-	10,763,509
Less accumulated depreciation for:				
Buildings and improvements	4,648,783	166,210	-	4,814,993
Equipment	2,726,100	161,126	-	2,887,226
Total accumulated depreciation	7,374,883	327,336	-	7,702,219
Total capital assets being depreciated, net	3,388,626	(327,336)	-	3,061,290
<i>Capital assets, net - Business-Type Activities</i>	<u>\$3,697,455</u>	<u>\$ 568,195</u>	<u>\$ -</u>	<u>\$4,265,650</u>

Depreciation expense was charged to functions as follows:

<i>Business-Type Activities:</i>	
Liquor Fund	\$ 3,994
Water Fund	142,512
Waste Water Fund	143,518
Solid Waste Fund	37,312
 Total Depreciation Expense - Business-Type Activities	 <u>\$ 327,336</u>

Construction in progress in the business-type activities includes the following:

The City is undertaking a Water and Sewer Repair Project in conjunction with a State road construction project. A total of \$968,953 has been spent on the project through December 31, 2019. Approximately \$250,000 in estimated costs remain to complete the project. These funds will be provided through the Water and Sewer Funds.

An additional \$805 has been expended in initial planning for a Water Treatment Plant and Sewer Line Replacement Project. The project is not scheduled to be undertaken until 2022 or later.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

4. CHANGES IN CAPITAL ASSETS, continued

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Component Unit:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 68,884	\$ -	\$ -	\$ 68,884
Construction in Progress	-	51,902	-	51,902
Total capital assets not being depreciated	68,884	51,902	-	120,786
<i>Capital assets being depreciated:</i>				
Buildings and improvements	5,523,735	43,892	-	5,567,627
Equipment	164,063	4,275	-	168,338
Total capital assets being depreciated	5,687,798	48,167	-	5,735,965
Less accumulated depreciation for:				
Buildings and improvements	4,799,456	94,410	-	4,893,866
Equipment	121,044	11,382	-	132,426
Total accumulated depreciation	4,920,500	105,792	-	5,026,292
Total capital assets being depreciated, net	767,298	(57,625)	-	709,673
<i>Capital assets, net - Component Unit</i>	<u>\$ 836,182</u>	<u>\$ (5,723)</u>	<u>\$ -</u>	<u>\$ 830,459</u>

5. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities of the primary government is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Compensated Absences	\$ 50,104	\$ 35,252	\$ (30,062)	\$ 55,294	\$ 33,176
Total Governmental Activities	50,104	35,252	(30,062)	55,294	33,176
<i>Business-Type Activities:</i>					
Compensated Absences	27,569	17,972	(16,542)	28,999	17,400
Total Business-Type Activities	27,569	17,972	(16,542)	28,999	17,400
<i>Total Primary Government</i>	<u>\$ 77,673</u>	<u>\$ 53,224</u>	<u>\$ (46,604)</u>	<u>\$ 84,293</u>	<u>\$ 50,576</u>

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

5. LONG-TERM LIABILITIES, continued

Long-term liabilities at December 31, 2019, are comprised of the following:

Compensated Absences:

Vacation and sick leave payable to City Employees as of December 31, 2019, payments will be made from the same department as the employees' normal salary is paid.

\$ 55,294

Total Governmental Activities

\$ 55,294

Business-Type Activities

Compensated Absences:

Vacation and sick leave payable to City Employees as of December 31, 2019; payments will be made from the same fund as the employees' normal salary is paid.

\$ 28,999

Total Business-Type Activities

\$ 28,999

A summary of the changes in long-term liabilities of the component unit is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<i>Component Unit</i>					
Compensated Absences	\$ 13,973	\$ 5,935	\$ (4,115)	\$ 15,793	\$ 5,935
<i>Total Component Unit</i>	<u>\$ 13,973</u>	<u>\$ 5,935</u>	<u>\$ (4,115)</u>	<u>\$ 15,793</u>	<u>\$ 5,935</u>

Component Unit:

Compensated Absences:

Vacation and sick leave payable to Employees as of December 31, 2019, payments will be made from the same program as the employees' normal salary is paid.

\$ 15,793

Total Component Unit

\$ 15,793

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

6. RESTRICTED NET POSITION

The following table shows the Government Activities' net position restrictions for the year ended December 31, 2019:

Purpose	Restricted By	Amount
<i>Major Purposes:</i>		
SDRS Pension	State Law	\$ 111,012
Entertainment Sales Tax	State Law	152,643
SDPAA Insurance Reserve	Agreement	39,004
		\$ 302,659

7. INTERFUND TRANSFERS

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

	Transfers To	Transfers From
<i>Governmental activities:</i>		
<i>General Fund:</i>		
Liquor Fund	\$ -	\$ 60,000
<i>Total governmental activities</i>	-	60,000
<i>Business-type activities:</i>		
<i>Liquor Fund</i>		
General Fund	60,000	-
<i>Total business-type activities</i>	60,000	-
<i>Total primary government</i>	\$ 60,000	\$ 60,000

The City typically budgets transfers to the General Fund from the Liquor Fund to conduct the indispensable functions of the City.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

8. 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 plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide 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.

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

CITY OF SISSETON

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. PENSION PLAN, continued

Benefits Provided, continued

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and 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 was \$56,304 \$54,382 and \$51,823 respectively, equal to the required contributions each year.

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

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

Proportionate share of pension liability	\$5,441,085
Less proportionate share of net pension restricted for pension benefits	<u>5,445,712</u>
Proportionate share of net pension liability (asset)	<u>\$ (4,627)</u>

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

8. PENSION PLAN, continued

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

At December 31, 2019, the City reported a liability/(asset) of \$(4,627) 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 0.04366070%, which is an increase of 0.0010389% from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the City recognized pension expense of \$131,611. At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 18,149	\$ 2,094
Changes in assumptions	159,799	65,510
Net difference between projected and actual earnings on pension plan investments	-	26,654
Changes in proportion and difference between the City's contributions and proportionate share of contributions	1,789	6,918
City contributions subsequent to the measurement date	<u>27,824</u>	<u>-</u>
Total	<u>\$ 207,561</u>	<u>\$ 101,176</u>

CITY OF SISSETON

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. PENSION PLAN, continued

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

\$27,824 reported as deferred outflow of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/(asset) in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended	
<u>December 31</u>	
2020	\$ 99,989
2021	(17,549)
2022	(12,233)
2023	<u>8,354</u>
Total	<u>\$ 78,561</u>

Actuarial Assumptions

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

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

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

CITY OF SISSETON

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. PENSION PLAN, continued

Actuarial Assumptions, continued

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 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	<u>2.0%</u>	0.9%
Total	<u>100%</u>	

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 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).

CITY OF SISSETON

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

8. PENSION PLAN, continued

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension liability (asset)	\$ 767,965	\$ (4,627)	\$ (634,149)

Pension Plan Fiduciary Net Position

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

9. 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:

Employee Health Insurance

The City is a member of 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.

Property Insurance

The City purchases insurance coverage for its buildings and contents from a commercial insurance carrier. The deductible for this coverage varies from \$250 to \$1,000. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

CITY OF SISSETON

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

9. RISK MANAGEMENT, continued

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. SECOG'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 Municipality. SECOG 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 Municipality pays an annual premium to the pool to provide coverage for general liability, property coverage, auto liability and damage, 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.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

9. RISK MANAGEMENT, continued

Liability Insurance, continued

As of December 31, 2019, the City's balance available to be refunded per the SDPAA was \$39,004, which was an increase of \$944 from the previous year. The change in the amount available for refund was accounted for as a decrease in the insurance expenditures or program expenses.

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.

The City purchases liability insurance for risks related to airport liability from a commercial insurance carrier.

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund (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 to its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date to 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.

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.

CITY OF SISSETON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

10. SUBSEQUENT EVENTS

The City evaluated subsequent events and transactions that occurred after the financial statement date up to the date that the financial statements were issued.

The construction projects have progressed as expected. In the governmental activities, the Ballpark Project was completed as anticipated. The Airport Improvement Project and Drainage Channel Project are nearing completion. In the business-type activities, Water and Sewer Repair Project is also nearing completion. No major additional costs have been incurred.

Management is currently evaluating the impact of the COVID-19 pandemic on the City and has concluded that while it is reasonably possible that the virus could have a negative effect on the City's financial position and results of its operations, the specific impact is not readily determinable. The State of South Dakota is providing assistance by supplementing Public Safety personnel costs. Other essential City services are being maintained within prescribed guidelines to protect employees and constituency.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SISSETON

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - PAGE 1 OF 2
YEAR ENDED DECEMBER 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
General property taxes	\$ 775,000	\$ 775,000	\$ 768,368	\$ (6,632)
General sales and use taxes	1,100,000	1,100,000	1,187,989	87,989
Amusement taxes	335	335	336	1
Penalties and interest on delinquent taxes	-	-	5,036	5,036
Licenses and permits	9,300	9,300	14,259	4,959
Intergovernmental revenue:				
Federal grants	-	75,000	173,831	98,831
State grants	75,000	78,360	18,076	(60,284)
State shared revenues	117,000	117,000	131,721	14,721
State payments in lieu of taxes	16,000	16,000	23,321	7,321
County shared revenues	2,200	2,200	2,246	46
Charges for goods and services:				
Public safety	29,650	29,650	30,738	1,088
Highway and streets	500	500	4,248	3,748
Culture and recreation	10,750	10,750	12,551	1,801
Airport	7,500	7,500	11,598	4,098
Fines and forfeits:				
Court fines and costs	150	150	430	280
Animal control fines	100	100	330	230
Miscellaneous revenue:				
Interest earned	15,000	15,000	109,461	94,461
Rentals	25,000	25,000	25,592	592
Contributions and donations from private sources	125,000	275,000	283,255	8,255
Other	85,000	85,000	69,986	(15,014)
Total revenues	<u>2,393,485</u>	<u>2,621,845</u>	<u>2,873,372</u>	<u>251,527</u>
EXPENDITURES				
General government:				
Legislative	50,235	50,235	42,370	7,865
Contingency	100,000	100,000	-	67,500
(Amount transferred)		(32,500)		
Executive	12,200	12,200	10,379	1,821
Elections	2,200	2,200	-	2,200
Financial administration	144,350	146,850	129,821	17,029
Other	40,200	40,200	32,651	7,549
Public safety:				
Police	569,000	569,000	517,789	51,211
Fire	76,000	243,500	232,361	11,139
Public works:				
Highways and streets	619,800	659,800	445,590	214,210
Sanitation	9,000	9,000	4,796	4,204
Airport	189,000	264,000	224,188	39,812
Health and welfare:				
Health	9,000	12,360	9,268	3,092
Culture and recreation:				
Recreation	258,900	408,900	347,841	61,059
Parks	28,100	28,100	16,731	11,369
Libraries	161,300	176,300	159,736	16,564

CITY OF SISSETON

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - PAGE 2 OF 2
 YEAR ENDED DECEMBER 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary - Modified Accrual Basis)</u>	<u>Final Budget Positive (Negative)</u>
Conservation and development:				
Economic development and assistance	<u>125,950</u>	<u>125,950</u>	<u>97,396</u>	<u>28,554</u>
Total expenditures	<u>2,395,235</u>	<u>2,816,095</u>	<u>2,270,917</u>	<u>545,178</u>
(Deficiency) excess of revenues over expenditures	<u>(1,750)</u>	<u>(194,250)</u>	<u>602,455</u>	<u>796,705</u>
OTHER FINANCING SOURCES				
Transfers in	60,000	60,000	60,000	-
Sale of capital assets	<u>-</u>	<u>-</u>	<u>4,054</u>	<u>4,054</u>
Total other financing sources	<u>60,000</u>	<u>60,000</u>	<u>64,054</u>	<u>4,054</u>
Net change in fund balances	58,250	(134,250)	666,509	800,759
CHANGE IN NONSPENDABLE	-	-	(2,912)	(2,912)
Fund balances - beginning	<u>6,845,041</u>	<u>6,845,041</u>	<u>6,845,041</u>	<u>-</u>
Fund balances - ending	<u>\$ 6,903,291</u>	<u>\$ 6,710,791</u>	<u>\$ 7,508,638</u>	<u>\$ 797,847</u>

CITY OF SISSETON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE DECEMBER 31, 2019

Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
3. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
4. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.

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

The City did not encumber any amounts at December 31, 2019.

5. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds and capital projects funds.
6. The Budgetary Comparison Schedule has been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedule presents expenditures for capital outlay purposes within each function while the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances present capital outlay expenditures as a separate function.

CITY OF SISSETON

**SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (ASSET)**

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
City's proportion of the net pension liability (asset)	0.0447509%	0.0434752%	0.0433183%	0.0418472%	0.0426220%
City's proportionate share of net pension liability (asset)	\$ (322,412)	\$ (184,391)	\$ 146,325	\$ (3,798)	\$ (994)
City's covered-employee payroll	\$ 700,141	\$ 714,506	\$ 739,773	\$ 762,265	\$ 795,547
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-46.05%	-25.81%	19.78%	-0.50%	-0.12%
Plan fiduciary net position as a percentage of the total pension liability	107.30%	104.10%	96.89%	100.10%	100.02%
	<u>2019</u>				
City's proportion of the net pension liability (asset)	0.0436607%				
City's proportionate share of net pension liability (asset)	\$ (4,627)				
City's covered-employee payroll	\$ 826,805				
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-0.56%				
Plan fiduciary net position as a percentage of the total pension liability	100.09%				

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is compiled, governments should present information for those years which information is available.

CITY OF SISSETON

SCHEDULE OF CONTRIBUTIONS

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 46,019	\$ 47,609	\$ 50,305	\$ 51,823	\$ 54,382
Contributions in relation to the contractually required contribution	<u>46,019</u>	<u>\$ 47,609</u>	<u>\$ 50,305</u>	<u>\$ 51,823</u>	<u>\$ 54,382</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 689,531	\$ 713,645	\$ 751,485	\$ 776,985	\$ 807,811
Contributions as a percentage of covered-employee payroll	6.67%	6.67%	6.69%	6.67%	6.73%
	<u>2019</u>				
Contractually required contribution	\$ 56,304				
Contributions in relation to the contractually required contribution	<u>56,304</u>				
Contribution deficiency (excess)	<u>\$ -</u>				
City's covered-employee payroll	\$ 839,128				
Contributions as a percentage of covered-employee payroll	6.71%				

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a 10-year trend is compiled, governments should present information for those years which information is available.

CITY OF SISSETON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION PENSION SCHEDULES DECEMBER 31, 2019

Changes of Benefit Terms

There were no significant changes.

Changes of Assumptions

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

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

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

*Wahlenberg
Ritzman & Co., LLC*
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Commission
City of Sisseton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Sisseton, South Dakota** (hereinafter referred to as 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, and have issued our report thereon dated September 22, 2020, which includes a reference to other auditors. Other auditors audited the financial statements of the Sisseton Housing and Redevelopment Commission, a discretely presented component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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AICPA
GAQC Member

Member of: Private Companies Practice Section American Institute of CPAs, South Dakota Society

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Yankton, South Dakota
September 22, 2020

CITY OF SISSETON

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2019**

PRIOR OTHER AUDIT FINDINGS

2018-001 Segregation of Duties – Significant Deficiency

Condition

The City has a lack of segregation of duties in certain areas due to a limited staff.

Recommendation

Management and the City Commission should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. The most effective controls lie in the Management's knowledge of the matters relating to the City's operations, establishing a procedure of rotation of duties and strict enforcement of a vacation policy requiring all personnel to be absent from the City for specified times.

Status

This is a continuing condition.

CITY OF SISSETON

SCHEDULE OF AUDIT FINDINGS AND RESPONSES DECEMBER 31, 2019

2019-001 Revenue and Receivables – Segregation of Duties
Repeat of Finding 2018-001
Significant Deficiency

Condition

Two members of the office staff process all cash receipts and disbursement transactions, including receiving money, issuing receipts, recording and posting receipts in the accounting records, preparing bank deposits, reconciling bank statements, and preparing financial statements.

Criteria

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Cause

Because of the nature and size of the entity, resources are limited to provide adequate levels of control.

Effect

At times there is an inadequate segregation of duties for these accounting functions. Although the staff attempts to divide the various tasks so that one person does not control a transaction from beginning to end, that is not always possible.

Recommendation

Management and the City Commission should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. The most effective controls lie in the Management's knowledge of the matters relating to the City's operations, establishing a procedure of rotation of duties and strict enforcement of a vacation policy requiring all personnel to be absent from the City for specified times.

CITY OF SISSETON

SCHEDULE OF AUDIT FINDINGS AND RESPONSES, continued DECEMBER 31, 2019

2019-001 Revenue and Receivables – Segregation of Duties, continued

Management's Response

The Mayor and the City Commission of the City of Sisseton, South Dakota, are the contact persons responsible for the response to this comment. This comment is a result of the size of the City of Sisseton which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City's management has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for accounting functions. The City's management is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding accounting functions continues to exist.