MUNICIPALITY OF LENNOX
LENNOX, SOUTH DAKOTA

AUDIT REPORT

FOR THE YEAR JANUARY 1, 2019 TO DECEMBER 31, 2019

Schoenfish & Co., Inc.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPAL OFFICIALS
DECEMBER 31, 2019

MAYOR:

Tracy West

GOVERNING BOARD:

Chad Reilly, President
Brock Rops, Vice-President
Sam Bowers
Greg Poppenga
Billy Welch
Chad Wulf

CITY ADMINISTRATOR/INTERIM FINANCE OFFICER:

Nathan Vander Plaats

ATTORNEY:

Brett Lovrien

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CERTIFIED PUBLIC ACCOUNTANTS
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105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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*

Governing Board
Municipality of Lennox
Lennox, 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 modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund, of the Municipality of Lennox, South Dakota (Municipality), as of December 31, 2019 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated August 4, 2020, which was adverse for the legally separate component units because they were not presented.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of 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.*

Municipality's Responses to Findings

The Municipality's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The Municipality's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Municipality's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Schoenfish & Co., Inc.

Schoenfish & Co., Inc.
Certified Public Accountants
August 4, 2020

SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2018-001:
The Municipality of Lennox's internal control structure should be designed to provide for the preparation of the financial statements and footnotes in accordance with the modified cash basis of accounting. Additionally, a system of accounting control contemplates accurate recording and presentation of amounts and disclosures in the financial statements being audited. This comment has not been corrected and a similar comment is restated as current audit finding number 2019-001.

Compliance – Related Finding:

Finding Number 2018-002:
Expenditures were in excess of the amounts budgeted in several departments in the General Fund and Baseball Fund. This comment has been corrected.

SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT OTHER AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2019-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is a continuing audit comment.

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

Condition:
The Finance Officer and Assistants process all revenue transactions from beginning to end. The Finance Officer and Assistants also receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements, and prepare financial statements.

Effect:
As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:
1. We recommend that the Municipality of Lennox officials be cognizant of this lack of segregation of duties for revenues and attempt to develop policies and provide compensating internal controls whenever, and wherever, possible and practical.

Managements Response:
The Municipality of Lennox Mayor, Tracy West, is the contact person responsible for the corrective action plan for this finding. This comment is due to the size of the Municipality of Lennox, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to develop policies and provide compensating controls.

CLOSING CONFERENCE

The audit and recommendations were discussed with the officials during the course of the audit and with the Mayor, several Councilmen, the Finance Officer, and the Municipal Administrator on August 24, 2020.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Lennox
Lennox, South Dakota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality'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 Municipality'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.

Basis for Adverse Opinions

The Municipality did not report the financial information of the Area Ambulance Squad and the Lennox Housing and Redevelopment Commission.

Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component units. The Municipality has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented components units would have been presented.

Adverse Opinion

In our opinion, because of the omission of financial data for the component units, as discussed in the Basis for Adverse Opinions, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the Municipality of Lennox, South Dakota, as of December 31, 2019, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

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

Basis of Accounting

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

Emphasis of the Matter

As discussed in Note 1, the financial statements referred to above include only on the primary government of the Municipality of Lennox, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the Municipality's legal entity. These primary government financial statements do not include the accrual basis, audited financial data for the Housing and Redevelopment Commission for of the Municipality of Lennox, a legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Municipality's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the financial position of the reporting entity of the Municipality of Lennox as of December 31, 2019, the changes in its financial position or, where applicable, its cash flows thereof for the year then ended in accordance with accounting

principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

We have audited the modified cash basis financial statements of the reporting entity of the Municipality of Lennox, as of and for the year ended December 31, 2019, and report thereon, dated August 4, 2020, expressed an unmodified opinion on those financial statements.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset), the Schedule of Municipal Contributions, and the Schedule of Long-Term Liabilities listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated August 4, 2020 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Municipality's internal control over financial reporting and compliance.

Schoenfish & Co., Inc.

Schoenfish & Co., Inc.
Certified Public Accountants
August 4, 2020

MUNICIPALITY OF LENNOX
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	955,246.12	877,844.62	1,833,090.74
Interfund Loan	(34,230.32)	34,230.32	0.00
TOTAL ASSETS	921,015.80	912,074.94	1,833,090.74
NET POSITION:			
Restricted for:			
Library	1,104.71		1,104.71
Promotion and Economic Development	28,263.50		28,263.50
Future Drainage Projects	101,301.98		101,301.98
Equipment Repair & Replacement		73,589.00	73,589.00
Debt Service		424,770.21	424,770.21
Unrestricted	790,345.61	413,715.73	1,204,061.34
TOTAL NET POSITION	921,015.80	912,074.94	1,833,090.74

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF LENNOX
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2019

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	414,003.88	27,554.66			(386,449.22)		(386,449.22)
Public Safety	516,874.71	3,026.00		3,995.00	(509,853.71)		(509,853.71)
Public Works	894,395.87	8,207.13	58,225.36	222,579.80	(605,383.58)		(605,383.58)
Health and Welfare	7,648.40		1,916.00		(5,732.40)		(5,732.40)
Culture and Recreation	238,896.33	57,029.56	6,650.00		(175,216.77)		(175,216.77)
Conservation and Development	254,448.08	25,292.50			(229,155.58)		(229,155.58)
Payment on Long-Term Debt	170,269.82				(170,269.82)		(170,269.82)
Total Governmental Activities	2,496,537.09	121,109.85	66,791.36	226,574.80	(2,082,061.08)		(2,082,061.08)
Business-type Activities:							
Water	1,074,443.26	531,436.50				(543,006.76)	(543,006.76)
Sewer	2,632,362.40	652,095.72		1,043,614.71		(936,651.97)	(936,651.97)
Pool	1,787,893.11	700.00		49,141.25		(1,738,051.86)	(1,738,051.86)
Ambulance	188,541.45	164,777.49				(23,763.96)	(23,763.96)
Total Business-Type Activities	5,683,240.22	1,349,009.71	0.00	1,092,755.96		(3,241,474.55)	(3,241,474.55)
Total Primary Government	8,179,777.31	1,470,119.56	66,791.36	1,319,330.76	(2,082,061.08)	(3,241,474.55)	(5,323,535.63)
General Revenues:							
Taxes:							
Property Taxes					991,467.28		991,467.28
Sales Taxes					659,863.15		659,863.15
State Shared Revenues					38,392.28		38,392.28
Grants and Contributions not Restricted to Specific Programs					5,400.00		5,400.00
Unrestricted Investment Earnings					5,128.44	1,667.72	6,796.16
Debt Issued						1,118,110.00	1,118,110.00
Miscellaneous Revenue					29,701.19		29,701.19
Transfers					(40,500.00)	40,500.00	0.00
Total General Revenues and Transfers					1,689,452.34	1,160,277.72	2,849,730.06
Change in Net Position					(392,608.74)	(2,081,196.83)	(2,473,805.57)
Net Position - Beginning					1,313,624.54	2,993,271.77	4,306,896.31
NET POSITION - ENDING					921,015.80	912,074.94	1,833,090.74

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF LENNOX
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2019

	General Fund	2nd Penny Sales Tax Fund	3rd Penny Sales Tax Fund	Baseball Fund	Storm Drainage Fund	Swimming Pool Debt Service Fund	Total Governmental Funds
ASSETS:							
Cash and Cash Equivalents	521,748.30	282,564.14	28,263.50	21,368.20	101,301.98		955,246.12
TOTAL ASSETS	521,748.30	282,564.14	28,263.50	21,368.20	101,301.98	0.00	955,246.12
LIABILTIES:							
Due to Pool Fund						34,230.32	34,230.32
Total Liabilities	0.00	0.00	0.00	0.00	0.00	34,230.32	34,230.32
FUND BALANCES:							
Restricted for:							
Library	1,104.71						1,104.71
Promotion and Economic Development			28,263.50				28,263.50
Future Drainage Projects					101,301.98		101,301.98
Committed for:							
Capital Outlay Accumulations	48,000.00	282,564.14					330,564.14
Fire Department Capital Improvements	72,500.00						72,500.00
Assigned for:							
Baseball & Softball Programs & Improvements				21,368.20			21,368.20
Unassigned	400,143.59					(34,230.32)	365,913.27
Total Fund Balances	521,748.30	282,564.14	28,263.50	21,368.20	101,301.98	(34,230.32)	921,015.80
TOTAL LIABILITIES AND FUND BALANCES	521,748.30	282,564.14	28,263.50	21,368.20	101,301.98	0.00	955,246.12

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF LENNOX
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2019

	General Fund	2nd Penny Sales Tax Fund	3rd Penny Sales Tax Fund	Baseball Fund	Storm Drainage Fund	Swimming Pool Debt Service Fund	Total Governmental Funds
Revenues:							
Taxes:							
General Property Taxes	989,029.93						989,029.93
General Sales and Use Taxes	316,996.82	316,996.78	25,869.55				659,863.15
Amusement Taxes	264.00						264.00
Penalties & Interest on Delinquent Taxes	2,173.35						2,173.35
Total Taxes	1,308,464.10	316,996.78	25,869.55	0.00	0.00	0.00	1,651,330.43
Licenses and Permits	34,467.50	0.00	0.00	0.00	0.00	0.00	34,467.50
Intergovernmental Revenue:							
State Grants	11,961.00						11,961.00
State Shared Revenue:							
Bank Franchise Tax	21,294.64						21,294.64
Prorate License Fees	20,600.18						20,600.18
Liquor Tax Reversion	13,757.57						13,757.57
Motor Vehicle Licenses	1,725.35						1,725.35
Local Government Highway and Bridge Fund	29,392.66						29,392.66
Other	3,340.07						3,340.07
County Shared Revenue:							
County Highway and Bridge Reserve Tax	2,695.69						2,695.69
County Wheel Tax	3,811.48						3,811.48
Total Intergovernmental Revenue	108,578.64	0.00	0.00	0.00	0.00	0.00	108,578.64
Charges for Goods and Services:							
General Government	14,564.66						14,564.66
Public Safety	891.00						891.00
Highways and Streets	946.13						946.13
Sanitation	6,511.00						6,511.00
Culture and Recreation	10,552.00			46,390.32			56,942.32
Total Charges for Goods and Services	33,464.79	0.00	0.00	46,390.32	0.00	0.00	79,855.11
Fines and Forfeits:							
Court Fines and Costs	1,600.00						1,600.00
Library	87.24						87.24
Total Fines and Forfeits	1,687.24	0.00	0.00	0.00	0.00	0.00	1,687.24

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF LENNOX
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2019

	General Fund	2nd Penny Sales Tax Fund	3rd Penny Sales Tax Fund	Baseball Fund	Storm Drainage Fund	Swimming Pool Debt Service Fund	Total Governmental Funds
Revenues: (continued)							
Miscellaneous Revenue:							
Investment Earnings	5,128.44						5,128.44
Rentals	5,100.00						5,100.00
Special Assessments	95,709.94				126,869.86		222,579.80
Contributions and Donations from Private Sources	6,000.00						6,000.00
Other	13,966.22	171.43			13,764.00		27,901.65
Total Miscellaneous Revenue	125,904.60	171.43	0.00	0.00	140,633.86	0.00	266,709.89
Total Revenue	1,612,566.87	317,168.21	25,869.55	46,390.32	140,633.86	0.00	2,142,628.81
Expenditures:							
General Government:							
Legislative	29,559.87						29,559.87
Executive	117,144.70						117,144.70
Elections	475.86						475.86
Financial Administration	145,592.35						145,592.35
Other	121,231.10						121,231.10
Total General Government	414,003.88	0.00	0.00	0.00	0.00	0.00	414,003.88
Public Safety:							
Police	401,741.21						401,741.21
Fire	64,649.89						64,649.89
Other Protection	50,483.61						50,483.61
Total Public Safety	516,874.71	0.00	0.00	0.00	0.00	0.00	516,874.71
Public Works:							
Highways and Streets	356,937.87	424,964.41	100,000.00		5,747.00		887,649.28
Sanitation	6,746.59						6,746.59
Total Public Works	363,684.46	424,964.41	100,000.00	0.00	5,747.00	0.00	894,395.87
Health and Welfare:							
Health	7,648.40						7,648.40
Total Health and Welfare	7,648.40	0.00	0.00	0.00	0.00	0.00	7,648.40

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF LENNOX
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2019

	General Fund	2nd Penny Sales Tax Fund	3rd Penny Sales Tax Fund	Baseball Fund	Storm Drainage Fund	Swimming Pool Debt Service Fund	Total Governmental Funds
Expenditures: (continued)							
Culture and Recreation:							
Recreation	57,372.04			38,522.80			95,894.84
Parks	45,720.65						45,720.65
Libraries	94,869.39						94,869.39
Museums	2,411.45						2,411.45
Total Culture and Recreation	200,373.53	0.00	0.00	38,522.80	0.00	0.00	238,896.33
Conservation and Development:							
Economic Development and Assistance (Industrial Development)	103,494.95	150,953.13					254,448.08
Total Conservation and Development	103,494.95	150,953.13	0.00	0.00	0.00	0.00	254,448.08
Debt Service		0.00	0.00	0.00	136,039.50	34,230.32	170,269.82
Total Expenditures	1,606,079.93	575,917.54	100,000.00	38,522.80	141,786.50	34,230.32	2,496,537.09
Excess of Revenue Over (Under) Expenditures	6,486.94	(258,749.33)	(74,130.45)	7,867.52	(1,152.64)	(34,230.32)	(353,908.28)
Other Financing Sources (Uses):							
Transfers Out	(9,500.00)	(31,000.00)					(40,500.00)
Compensation for Loss or Damage to Capital Assets	1,799.54						1,799.54
Total Other Financing Sources (Uses)	(7,700.46)	(31,000.00)	0.00	0.00	0.00	0.00	(38,700.46)
Net Change in Fund Balance	(1,213.52)	(289,749.33)	(74,130.45)	7,867.52	(1,152.64)	(34,230.32)	(392,608.74)
Fund Balance - Beginning	522,961.82	572,313.47	102,393.95	13,500.68	102,454.62	0.00	1,313,624.54
FUND BALANCE - ENDING	521,748.30	282,564.14	28,263.50	21,368.20	101,301.98	(34,230.32)	921,015.80

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF LENNOX
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2019

	Enterprise Funds				
	Water Fund	Sewer Fund	Pool Fund	Ambulance Fund	Totals
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	535,373.23	134,526.52	200,708.83	7,236.04	877,844.62
Due from Swimming Pool Debt Service Fund			34,230.32		34,230.32
Total Current Assets	535,373.23	134,526.52	234,939.15	7,236.04	912,074.94
TOTAL ASSETS	535,373.23	134,526.52	234,939.15	7,236.04	912,074.94
NET POSITION:					
Restricted Net Position, Restricted for:					
Equipment Repair & Replacement			73,589.00		73,589.00
Debt Service	164,873.85	259,896.36			424,770.21
Unrestricted Net Position	370,499.38	(125,369.84)	161,350.15	7,236.04	413,715.73
TOTAL NET POSITION	535,373.23	134,526.52	234,939.15	7,236.04	912,074.94

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF LENNOX
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2019

	Enterprise Funds				
	Water Fund	Sewer Fund	Pool Fund	Ambulance Fund	Totals
Operating Revenue:					
Charges for Goods and Services	333,174.42	437,658.92	700.00	160,777.49	932,310.83
Revenue Dedicated to Servicing Debt	198,262.08	214,436.80			412,698.88
Miscellaneous				4,000.00	4,000.00
Total Operating Revenue	531,436.50	652,095.72	700.00	164,777.49	1,349,009.71
Operating Expenses:					
Personal Services	52,135.01	144,694.08		144,908.48	341,737.57
Other Current Expense	202,460.28	298,972.26	10,968.75	34,908.25	547,309.54
Materials	101,433.53				101,433.53
Capital Assets	552,940.60	2,025,765.66	1,776,924.36	8,724.72	4,364,355.34
Total Operating Expenses	908,969.42	2,469,432.00	1,787,893.11	188,541.45	5,354,835.98
Operating Income (Loss)	(377,532.92)	(1,817,336.28)	(1,787,193.11)	(23,763.96)	(4,005,826.27)
Nonoperating Revenue (Expense):					
Investment Earnings	99.30		1,568.42		1,667.72
Debt Service	(165,473.84)	(162,930.40)			(328,404.24)
Long-Term Debt Issued	442,509.00	675,601.00			1,118,110.00
Total Nonoperating Revenue (Expense)	277,134.46	512,670.60	1,568.42	0.00	791,373.48
Income (Loss) Before Contributions and Transfers	(100,398.46)	(1,304,665.68)	(1,785,624.69)	(23,763.96)	(3,214,452.79)
Capital Contributions		1,043,614.71	49,141.25		1,092,755.96
Transfers In			9,500.00	31,000.00	40,500.00
Change in Net Position	(100,398.46)	(261,050.97)	(1,726,983.44)	7,236.04	(2,081,196.83)
Net Position - Beginning	635,771.69	395,577.49	1,961,922.59	0.00	2,993,271.77
NET POSITION - ENDING	535,373.23	134,526.52	234,939.15	7,236.04	912,074.94

The notes to the financial statements are an integral part of this statement.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of the Municipality of Lennox, (Municipality) 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 Municipality is financially accountable if its Governing Board 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 Municipality (primary government). The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

The Housing and Redevelopment Commission of the Municipality of Lennox, South Dakota is a discretely presented component unit that utilizes the accrual basis of accounting. The Municipality has created a Housing and Redevelopment Commission under the authority of South Dakota Codified Law 11-7-7 with a fiscal year ended March 31. The entity is legally separate but is fiscally depending upon the governing board and has the ability to impose a financial burden on the Municipality. Separately issued, accrual basis financial statements of the Housing and Redevelopment Commission may be obtained from: Housing and Redevelopment Commission of the City of Lennox; 217 South Pine Street; Lennox, SD 57039.

The Area Ambulance Squad, Inc. of Lennox, South Dakota is a proprietary fund-type, discretely-presented component unit. The Area Ambulance Squat is legally separate but is fiscally dependent upon the Governing Board and has the ability to impose financial burden on the Municipality through the purchase of equipment and other financial assistance.

b. Basis of Presentation:

Government-wide Financial Statements:

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality'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 Municipality or it meets the following criteria.

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

Governmental Funds:

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

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

2nd Penny Sales Tax Fund – to account for the collection of a one percent sales tax to be used strictly for capital needs and debt service. This is a major fund.

3rd Penny Sales Tax Fund – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the city (SDCL 10-52A-2). This

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

fund may be established at the direction of the governing body through local ordinance. This is a major fund.

Baseball Fund – to account for the collection and disbursement of money from baseball fees and donations. This is a major fund.

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

Storm Drainage Debt Service Fund – debt service funds are used to account of the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This is a major fund.

Swimming Pool Debt Service Fund – debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt, principal, interest, and related costs of the pool bond. This is a major fund.

Proprietary Funds:

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

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

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

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

Pool Fund – financed primarily by user charges, this fund accounts for the operations of a municipal swimming pool. (SDCL 9-28-60) This is a major fund.

Ambulance Fund – financed primarily by user charges, this fund accounts for the operations of municipal ambulance services. (SDCL 34-9-1 and 28-18-7) This is a major fund.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

c. Measurement Focus and Basis of Accounting:

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

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

In the Government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed, and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the Municipality in these financial statements is:

a. Recording assets and liabilities related to interfund receivables and payables resulting from cash transactions between funds.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

e. Deposits and Investments:

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

f. Capital Assets:

Under the modified cash basis of accounting, capital assets are recorded when they result from cash transaction, and are depreciated, where appropriate. The accounting treatment for property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and whether they are reported in the government-wide of fund financial statements.

Government-wide Financial Statements:

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type, are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and deprecating those assets were appropriate so any capital assets owned by the Municipality and the related depreciation are not reported on the financial statements of the Municipality.

g. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, General Obligation Bonds, Revenue Bonds, Certificates of Participation, Financing (Capital Acquisition) Leases, and Compensated Absences.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

As discussed in Note 1.c. above the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type, are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the Municipality. The Municipality does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as the Interest on Long-Term Debt.

The Municipality has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

h. Program Revenues:

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. 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 and expenses.

j. Cash and Cash Equivalents:

The Municipality pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents.

k. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in two components.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

1. 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.
2. Unrestricted net position – All other net position that do not meet the definition of "restricted net position."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned" and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

l. Application of Net Position:

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

m. 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 Municipality classifies governmental fund balances as follows:

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund Balance may be assigned by the Finance Officer.
- 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 Municipal Governing Board committed the following fund balance types by taking the following action:

Fund Balance Type	Amount	Action
General Fund Capital Outlay	$ 48,000.00	Resolution
Capital Improvements	282,564.14	Resolution
Fire Department Capital Improvements	72,500.00	Resolution

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

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

The purpose of each major special revenue fund and revenue source is listed below:

Major Special Revenue Fund	Revenue Source
2nd Penny Sales Tax Fund	Sales Taxes
3rd Penny Sales Tax Fund	Sales Taxes
Baseball Fund	Charges

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2019, the Municipality did not have any investments.

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates that will adversely affect the value of an investment. The Municipality 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.

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 Municipality's policy is to credit all income from investments to the fund making the investment.

3. PROPERTY TAXES

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

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

4. INTERFUND TRANSFERS

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

	Transfers To:		
Transfers From:	Pool Fund	Ambulance Fund	Total
Major Funds:			
General Fund	$ 9,500.00		$ 9,500.00
2nd Penny Sales Tax Fund:		$ 31,000.00	$ 31,000.00
	$ 9,500.00	$ 31,000.00	$ 40,500.00

The Municipality budgets transfers to the Pool Fund to conduct indispensable functions of the Municipality. The Municipality used transfers to the Ambulance Fund to eliminate the deficit cash balance.

5. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

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

	Interfund Receivables	Interfund Payables
Debt Service Funds:		
Swimming Pool Debt Service Fund		$ 34,230.32
Enterprise Funds:		
Pool Fund	$ 34,230.32	

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The purpose for the interfund receivable and payable balances are to eliminate a cash deficit until Real Estate Taxes are received.

The Municipality expects all interfund receivables and payables to be repaid within one year.

6. RESTRICTED NET POSITION

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

Major Purposes:		
Library	$	1,104.71
City Promotion and Economic Development Purposes		28,263.50
Future Drainage Projects		101,301.98
Equipment Repair & Replacement		73,589.00
Debt Service		424,770.21
Total Restricted Net Position	$	629,029.40

These balances are restricted due to statutory and debt covenant contractual requirements.

7. PENSION PLAN

Plan Information:
All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at http://www.sdrs.sd.gov/publications.aspx or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

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

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation 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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

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

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

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

Contributions:
Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2019, 2018, and 2017, were $52,400.65, $43,838.07, and $45,428.20, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:
At June 30, 2019, SDRS is 100.09% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2019 and reported by the Municipality as of December 31, 2019 are as follows:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Proportionate share of pension liability	$ 4,735,076.11
Less proportionate share of net position restricted for pension benefits	$ 4,739,102.59
Proportionate share of net pension liability (asset)	$ (4,026.48)

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 Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the Municipality's proportion was 0.03799550%, which is a decrease of 0.0009790% from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the Municipality recognized pension expense (reduction of expense) of $107,056.24. At December 31, 2019, the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience.	$ 15,794.32	$ 1,822.46
Changes in assumption.	$ 139,064.20	$ 57,009.58
Net difference between projected and actual earnings on pension plan investments.		$ 23,195.84
Changes in proportion and difference between Municipality contributions and proportionate share of contributions.	$ 7,069.98	$ 14,789.28
Municipality contributions subsequent to the measurement date.	$ 26,843.47	
TOTAL	$ 188,771.97	$ 96,817.16

$26,843.47 reported as deferred outflow of resources related to pensions resulting from Municipality contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Year Ended December 31:	
2020	$ 84,841.38
2021	$ (15,772.13)
2022	$ (10,726.16)
2023	$ 6,768.25
TOTAL	$ 65,111.34

Actuarial Assumptions:
The total pension liability (asset) in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates 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, projected generationally with Scale MP-2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100%	

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

Sensitivity of liability (asset) to changes in the discount rate:
The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent as well as what the Municipality'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:

	1% Decrease	Current Discount Rate	1% Increase
Municipality's proportionate share of the net pension liability (asset)	$ 668,317.30	$ (4,026.48)	$(551,865.17)

Pension Plan Fiduciary Net Position:
Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

8. SIGNIFICANT CONTINGENCIES – LITIGATION

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

9. RISK MANAGEMENT

The Municipality 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 Municipality managed its risks as follows:

Employee Health Insurance:
The Municipality joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Municipality pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a $2,000,000 lifetime maximum payment per person.

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Liability Insurance:
The Municipality joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Municipality's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the Municipality. The Municipality 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 vehicle liability; liability coverage for torts, theft, or damage to property; and errors and omissions of public officials.

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to the 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:

Years	Percentage
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 Municipality is considered a deposit for financial reporting purposes.

As of December 31, 2019, the Municipality's balance available to be refunded per the SDPAA was $88,596.00, which was an increase of $12,754.00 from the previous year.

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

Worker's Compensation:
The Municipality 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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

South Dakota local government entities. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first $650,000 of any claim per individual. The pool has reinsurance which covers up to an additional $2,000,000 per individual per incident.

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

During the year ended December 31, 2019, no claims were filed for unemployment benefits. At December 31, 2019, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

10. SUBSEQUENT EVENTS

The Municipality of Lennox passed resolutions in November 2018 to issue Drinking Water Surcharge Revenue Bond, Series 2018 and Wastewater Surcharge Revenue Bond, Series 2018 in the amounts of $912,000.00 and $1,496,000.00, respectively.

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF LENNOX
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes	1,023,742.00	1,023,742.00	989,029.93	(34,712.07)
General Sales and Use Taxes	300,000.00	300,000.00	316,996.82	16,996.82
Amusement Tax	200.00	200.00	264.00	64.00
Penalties and Interest on Delinquent Taxes	2,000.00	2,000.00	2,173.35	173.35
Total Taxes	1,325,942.00	1,325,942.00	1,308,464.10	(17,477.90)
Licenses and Permits	17,900.00	17,900.00	34,467.50	16,567.50
Intergovernmental Revenue:				
Federal Grants	113,400.00	113,400.00	0.00	(113,400.00)
State Grants	650.00	650.00	11,961.00	11,311.00
State Shared Revenue:				
Bank Franchise Tax	15,000.00	15,000.00	21,294.64	6,294.64
Prorate License Fees	5,000.00	5,000.00	20,600.18	15,600.18
Liquor Tax Reversion	13,000.00	13,000.00	13,757.57	757.57
Motor Vehicle Licenses	11,000.00	11,000.00	1,725.35	(9,274.65)
Local Government Highway and Bridge Fund	27,000.00	27,000.00	29,392.66	2,392.66
Other	0.00	0.00	3,340.07	3,340.07
County Shared Revenue:				
County Highway and Bridge Reserve Tax	3,000.00	3,000.00	2,695.69	(304.31)
County Wheel Tax	3,500.00	3,500.00	3,811.48	311.48
Total Intergovernmental Revenue	191,550.00	191,550.00	108,578.64	(82,971.36)
Charges for Goods and Services:				
General Government	6,500.00	6,500.00	14,564.66	8,064.66
Public Safety	150.00	150.00	891.00	741.00
Highways and Streets	1,000.00	1,000.00	946.13	(53.87)
Sanitation	5,000.00	5,000.00	6,511.00	1,511.00
Health	2,000.00	2,000.00	0.00	(2,000.00)
Culture and Recreation	6,000.00	6,000.00	10,552.00	4,552.00
Total Charges for Goods and Services	20,650.00	20,650.00	33,464.79	12,814.79
Fines and Forfeits:				
Court Fines and Costs	2,000.00	2,000.00	1,600.00	(400.00)
Library	0.00	0.00	87.24	87.24
Total Fines and Forfeits	2,000.00	2,000.00	1,687.24	(312.76)
Miscellaneous Revenue:				
Investment Earnings	4,000.00	4,000.00	5,128.44	1,128.44
Rentals	5,100.00	5,100.00	5,100.00	0.00
Special Assessments	62,000.00	62,000.00	95,709.94	33,709.94
Contributions and Donations from Private Sources	6,500.00	6,500.00	6,000.00	(500.00)
Other	15,000.00	15,000.00	13,966.22	(1,033.78)
Total Miscellaneous Revenue	92,600.00	92,600.00	125,904.60	33,304.60
Total Revenue	1,650,642.00	1,650,642.00	1,612,566.87	(38,075.13)

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF LENNOX
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Expenditures:				
General Government:				
Legislative	31,050.00	32,550.00	29,559.87	2,990.13
Contingency	50,000.00	50,000.00		
Amount Transferred		(50,000.00)		0.00
Executive	104,602.00	122,602.00	117,144.70	5,457.30
Elections	750.00	750.00	475.86	274.14
Financial Administration	149,399.00	149,399.00	145,592.35	3,806.65
Other	96,790.00	123,290.00	121,231.10	2,058.90
Total General Government	432,591.00	428,591.00	414,003.88	14,587.12
Public Safety:				
Police	411,613.00	440,613.00	401,741.21	38,871.79
Fire	106,000.00	106,000.00	64,649.89	41,350.11
Other Protection	50,000.00	50,500.00	50,483.61	16.39
Total Public Safety	567,613.00	597,113.00	516,874.71	80,238.29
Public Works:				
Highways and Streets	387,590.00	387,590.00	356,937.87	30,652.13
Sanitation	10,853.00	10,853.00	6,746.59	4,106.41
Total Public Works	398,443.00	398,443.00	363,684.46	34,758.54
Health and Welfare:				
Health	6,300.00	7,650.00	7,648.40	1.60
Total Health and Welfare	6,300.00	7,650.00	7,648.40	1.60
Culture and Recreation:				
Recreation	28,868.00	61,668.00	57,372.04	4,295.96
Parks	36,360.00	46,360.00	45,720.65	639.35
Libraries	86,999.00	94,999.00	94,869.39	129.61
Museums	3,000.00	3,000.00	2,411.45	588.55
Total Culture and Recreation	155,227.00	206,027.00	200,373.53	5,653.47
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	97,700.00	104,255.00	103,494.95	760.05
Total Conservation and Development	97,700.00	104,255.00	103,494.95	760.05
Total Expenditures	1,657,874.00	1,742,079.00	1,606,079.93	135,999.07
Excess of Revenue Over (Under) Expenditures	(7,232.00)	(91,437.00)	6,486.94	97,923.94
Other Financing Sources (Uses):				
Transfers Out	0.00	(9,500.00)	(9,500.00)	0.00
Compensation for Loss or Damage to Capital Assets	0.00	0.00	1,799.54	1,799.54
Total Other Financing Sources (Uses)	0.00	(9,500.00)	(7,700.46)	1,799.54
Net Change in Fund Balances	(7,232.00)	(100,937.00)	(1,213.52)	99,723.48
Fund Balance - Beginning	522,961.82	522,961.82	522,961.82	0.00
FUND BALANCE - ENDING	515,729.82	422,024.82	521,748.30	99,723.48

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF LENNOX
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
2ND PENNY SALES TAX FUND
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Taxes:				
General Sales and Use Taxes	300,000.00	300,000.00	316,996.78	16,996.78
Total Taxes	300,000.00	300,000.00	316,996.78	16,996.78
Miscellaneous Revenue:				
Other	0.00	0.00	171.43	171.43
Total Miscellaneous Revenue	0.00	0.00	171.43	171.43
Total Revenue	300,000.00	300,000.00	317,168.21	17,168.21
Expenditures:				
Public Works:				
Highways and Streets	70,000.00	424,964.41	424,964.41	0.00
Total Public Works	70,000.00	424,964.41	424,964.41	0.00
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	0.00	150,953.13	150,953.13	0.00
Total Conservation and Development	0.00	150,953.13	150,953.13	0.00
Total Expenditures	70,000.00	575,917.54	575,917.54	0.00
Excess of Revenue Over (Under) Expenditures	230,000.00	(275,917.54)	(258,749.33)	17,168.21
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(31,000.00)	(31,000.00)
Total Other Financing Sources (Uses)	0.00	0.00	(31,000.00)	(31,000.00)
Net Change in Fund Balances	230,000.00	(275,917.54)	(289,749.33)	(13,831.79)
Fund Balance - Beginning	572,313.47	572,313.47	572,313.47	0.00
FUND BALANCE - ENDING	802,313.47	296,395.93	282,564.14	(13,831.79)

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF LENNOX
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
3RD PENNY SALES TAX FUND
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Taxes:				
General Sales and Use Taxes	0.00	0.00	25,869.55	25,869.55
Total Taxes	0.00	0.00	25,869.55	25,869.55
Total Revenue	0.00	0.00	25,869.55	25,869.55
Expenditures:				
Public Works:				
Highways and Streets	0.00	100,000.00	100,000.00	0.00
Total Public Works	0.00	100,000.00	100,000.00	0.00
Total Expenditures	0.00	100,000.00	100,000.00	0.00
Net Change in Fund Balances	0.00	(100,000.00)	(74,130.45)	25,869.55
Fund Balance - Beginning	102,393.95	102,393.95	102,393.95	0.00
FUND BALANCE - ENDING	102,393.95	2,393.95	28,263.50	25,869.55

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF LENNOX
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
BASEBALL FUND
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Charges for Goods and Services:				
Culture and Recreation	35,800.00	35,800.00	46,390.32	10,590.32
Total Charges for Goods and Services	35,800.00	35,800.00	46,390.32	10,590.32
Total Revenue	35,800.00	35,800.00	46,390.32	10,590.32
Expenditures:				
Culture and Recreation:				
Recreation	46,100.00	46,100.00	38,522.80	7,577.20
Total Culture and Recreation	46,100.00	46,100.00	38,522.80	7,577.20
Total Expenditures	46,100.00	46,100.00	38,522.80	7,577.20
Net Change in Fund Balances	(10,300.00)	(10,300.00)	7,867.52	18,167.52
Fund Balance - Beginning	13,500.68	13,500.68	13,500.68	0.00
FUND BALANCE - ENDING	3,200.68	3,200.68	21,368.20	18,167.52

NOTES TO THE SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

NOTE 1. Budgets and Budgetary Accounting:

The Municipality followed 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. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.

3. A line item for contingencies may be included in the annual budget. Such 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.

4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.

5. Unexpected 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 and special revenue funds.

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.

7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the modified cash basis of accounting.

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a modified cash basis. Utilizing the modified cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

Last Five Years *

	2019	2018	2017	2016	2015
Municipality's proportion of the net pension liability/asset	0.0379955%	0.0355379%	0.0370165%	0.0307682%	0.0347124%
Municipality's proportionate share of net pension liability (asset)	$ (4,026)	$ (829)	$ (3,359)	$ 103,932	$ (147,225)
Municipality's covered-employee payroll	$ 740,170	$ 682,014	$ 687,781	$ 508,096	$ 561,875
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.54%	0.12%	0.47%	20.46%	26.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.09%	100.02%	100.1%	96.89%	104.10%

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 06/30 of each year.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

South Dakota Retirement System

Last Five Years

	2019	2018	2017	2016	2015
Contractually required contribution	$ 52,401	$ 43,838	$ 45,428	$ 39,845	$ 36,350
Contributions in relation to the contractually required contribution	$ 52,401	$ 43,838	$ 45,428	$ 39,845	$ 36,350
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Municipality's covered-employee payroll	$ 793,665	$ 683,914	$ 693,116	$ 601,985	$ 541,709
Contributions as a percentage of covered-employee payroll	6.60%	6.41%	6.55%	6.62%	6.71%

Notes to Required Supplementary Information
for the Year Ended December 31, 2019
Schedule of the Proportionate Share of the Net Pension Liability (Asset) and
Schedule of Pension Contributions.

Changes of benefit terms:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That 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 increased 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.

SUPPLEMENTARY INFORMATION

LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds-Series 2018	1,700,000.00			1,700,000.00	95,000.00
SRF Loan #6, Storm Water Assess. Bond 2017	1,839,983.00	13,764.00	18,434.17	1,835,312.83	37,775.57
Total Debt	3,539,983.00	13,764.00	18,434.17	3,535,312.83	132,775.57
Total Governmental Activities	3,539,983.00	13,764.00	18,434.17	3,535,312.83	132,775.57
Business-Type Activities:					
Bonds Payable:					
SRF Loan #1, Drinking Water Series 2005	1,325,272.29		62,298.99	1,262,973.30	64,348.53
SRF Loan #2, Drinking Water Series 2012	262,915.60		13,268.53	249,647.07	13,671.05
SRF Loan #4, Clean Water Series 2010	1,553,229.32		45,523.91	1,507,705.41	47,021.71
SRF Loan #5, Clean Water Series 2017	1,216,805.34		28,273.61	1,188,531.73	29,203.69
Water Revenue Refunding Bonds Series 2017	370,000.00		30,000.00	340,000.00	30,000.00
SRF Loan #3, Drinking Water Series 2019	0.00	442,509.00		442,509.00	0.00
SRF Loan #7, Clean Water Series 2019	0.00	675,601.00		675,601.00	0.00
Total Debt	4,728,222.55	1,118,110.00	179,365.04	5,666,967.51	184,244.98
Total Business-Type Activities	4,728,222.55	1,118,110.00	179,365.04	5,666,967.51	184,244.98
Total Primary Government	8,268,205.55	1,131,874.00	197,799.21	9,202,280.34	317,020.55

Liabilities payable at December 31, 2019 are comprised of the following:

General Obligation Bonds:
General Obligation Bonds, Series 2018
Maturity Date: July 15, 2033
Fixed Interest Rate: 3.40% to 4.00%
Payable from Pool Debt Service Fund $1,700,000.00

State Revolving Fund Loan #6 (SRF):
SRF Loan, Series 2017 for Storm Water Drainage
Maturity Date: April 15, 2049
Fixed Interest Rate: 3.25%
Payable from Storm Drainage Debt Service Fund $1,835,312.83

State Revolving Fund Loan #1 (SRF):
SRF Loan, Series 2005 for Drinking Water
Maturity Date: April 15, 2035
Fixed Interest Rate: 3.25%
Payable from Water Fund $1,262,973.30

State Revolving Fund Loan #2 (SRF):
SRF Loan, Series 2012 for Drinking Water
Maturity Date: July 15, 2034
Interest Rate: 3.00%
Payable from Water Fund $ 249,647.07

SUPPLEMENTARY INFORMATION
(continued)

State Revolving Fund Loan #4 (SRF): SRF Loan, Series 2010 for Clean Water Maturity Date: October 15, 2041 Interest Rate: 3.25% Payable from Sewer Fund	$1,507,705.41
State Revolving Fund Loan #5 (SRF): SRF Loan, Series 2012 for Clean Water Maturity Date: February 15, 2046 Interest Rate: 3.25% Payable from Sewer Fund	$1,188,531.73
Revenue Refunding Bonds: Water Revenue Refunding Bonds, Series 2017 Maturity Date: November 1, 2029 Fixed Interest Rates: 2.00% to 3.00% Payable from Water Fund	$ 340,000.00
State Revolving Fund Loan #3 (SRF): SRF Loan, Series 2019 for Drinking Water Maturity Date: April 15, 2051 Interest Rate: 2.25% Payable from Water Fund	$ 442,509.00
State Revolving Fund Loan #7 (SRF): SRF Loan, Series 2019 for Clean Water Maturity Date: April 15, 2051 Interest Rate: 2.50% Payable from Sewer Fund	$ 675,601.00

SUPPLEMENTARY INFORMATION
(continued)

Primary Government

The annual requirements to amortize all debt outstanding as of December 31, 2019, except for compensated absences, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2019

Year Ending December 31,	General Obligation Bonds Payable Series 2018		State Revolving Fund Loan Clean Water #6		State Revolving Fund Loan Drinking Water #1	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	95,000.00	59,820.00	37,775.57	59,190.39	64,348.53	40,267.68
2021	100,000.00	56,020.00	39,018.33	57,947.63	66,465.47	38,150.73
2022	105,000.00	52,020.00	40,301.97	56,663.99	68,652.09	35,964.12
2023	105,000.00	47,820.00	41,627.83	55,338.13	70,910.61	33,705.59
2024	110,000.00	43,620.00	42,997.31	53,968.65	73,243.45	31,372.75
2025-2029	615,000.00	155,400.00	237,158.55	247,671.25	403,986.01	119,094.99
2030-2034	570,000.00	49,030.00	278,821.65	206,008.15	474,956.69	48,124.31
2035-2039			327,803.98	157,025.82	40,410.45	446.82
2040-2044			385,391.29	99,438.51		
2045-2049			404,416.35	31,930.47		
Totals	1,700,000.00	463,730.00	1,835,312.83	1,025,182.99	1,262,973.30	347,126.99

Year Ending December 31,	State Revolving Fund Loan Drinking Water #2		State Revolving Fund Loan Clean Water #4		State Revolving Fund Clean Water #5	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	13,671.05	7,336.59	47,021.71	48,431.21	29,203.69	38,273.79
2021	14,085.81	6,921.83	48,568.64	46,884.28	30,164.44	37,313.04
2022	14,513.18	6,494.46	50,166.47	45,286.45	31,156.80	36,320.68
2023	14,953.49	6,054.15	51,816.85	43,636.07	32,181.81	35,295.67
2024	15,407.16	5,600.48	53,521.54	41,931.38	33,240.53	34,236.95
2025-2029	84,337.58	20,700.62	295,206.64	182,057.96	183,343.51	154,043.89
2030-2034	92,678.80	7,107.49	347,067.40	130,197.20	215,552.54	121,834.86
2035-2039			408,038.86	69,225.74	253,420.01	83,967.39
2040-2044			206,297.30	8,471.77	297,939.82	39,447.58
2045-2049					82,328.58	2,018.27
Totals	249,647.07	60,215.62	1,507,705.41	616,122.06	1,188,531.73	582,752.12

Year Ending December 31,	Water Revenue Refunding Bonds Payable Series 2017		TOTAL	
	Principal	Interest	Principal	Interest
2020	30,000.00	9,250.00	317,020.55	262,569.66
2021	30,000.00	8,650.00	328,302.69	251,887.51
2022	35,000.00	8,050.00	344,790.51	240,799.70
2023	35,000.00	7,350.00	351,490.59	229,199.61
2024	35,000.00	6,300.00	363,409.99	217,030.21
2025-2029	175,000.00	16,350.00	1,994,032.29	895,318.71
2030-2034			1,979,077.08	562,302.01
2035-2039			1,029,673.30	310,665.77
2040-2044			889,628.41	147,357.86
2045-2049			486,744.93	33,948.74
Totals	340,000.00	55,950.00	8,084,170.34	3,151,079.78

* Payments for SRF Drinking Water #3 and SRF Clean Water #7 are not included as all of the proceeds have not been received at December 31, 2019.