

**MUNICIPALITY OF LEOLA
LEOLA, SOUTH DAKOTA
AUDIT REPORT
FOR THE YEAR THEN ENDED
DECEMBER 31, 2019**

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CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**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**

Municipal Council
Municipality of Leola
Leola, 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 financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Municipality of Leola, South Dakota, (Municipality) as of December 31, 2019 and for the year then ended and the related notes to the financial statements, which collectively comprises the Municipality's basic financial statements and have issued our report thereon dated October 5, 2020, which was adverse on the aggregate discretely presented component units because the financial statements do not include financial data for the Municipality's legally separate component unit.

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 of Leola'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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs, 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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as items 2019-001, 2019-002, 2019-003 & 2019-004, to be material weaknesses.

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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 Response 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 response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

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

Cabell Boman

Mobridge, South Dakota

October 5, 2020

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2019**

PRIOR OTHER AUDIT FINDINGS

Finding 2018-001:

The Municipality has an inadequate listing of fixed asset records. This finding has not been corrected and is restated as current finding 2019-001

Finding 2018-002:

A lack of proper segregation of duties existed for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss public assets. The finding continues to exist, see 2019-002.

Finding 2018-003:

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements. This finding continues to exist, see 2019-003.

Finding 2018-004:

The Municipality lacks internal controls systems to ensure that all material adjustments have been completed. This finding continues to exist, see 2019-004.

CURRENT AUDIT FINDINGS:

Finding 2019-001:

Criteria:

The Equipment and Real Property compliance requirement requires organizations to maintain an adequate equipment and property management system. Fixed asset records should include comprehensive lists of all land, buildings, improvements and equipment that have a cost greater than the Municipality's capitalization policy. The Municipality's lists of such assets were found to be incomplete and lacking in supporting documentation.

Condition Found:

Fixed asset records are inadequate.

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2019**

Identification of Repeat Finding:

This is the second consecutive audit report in which this finding has appeared.

Cause/Effect:

Inaccurate financial statement and/or misappropriations of funds could result from inadequate maintenance of records.

Recommendation:

The Municipality should conduct a comprehensive physical inventory of all fixed assets and update the subsidiary records accordingly. Costs (or estimated costs) of the assets should be properly documented.

Views of Responsible Officials and Planned Corrective Action:

The Municipality finance officer, Sondra Waltman, is the contact person responsible for the corrective action plan for this comment. The Municipality agrees with the finding and has started to work on updating their records.

Finding 2019-002:

Criteria:

To obtain adequate internal control over cash management, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process.

Condition Found:

A lack of proper segregation of duties existed for the duties for cash, equity, revenue, expenditures and the payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This lack of segregation of duties has a direct effect on the cash management of the Municipality.

Identification of Repeat Finding:

This is the second consecutive audit report in which this finding has appeared.

Cause/Effect:

The Municipality of Leola, has a limited number of employees who prepare all records for cash, revenues, equity, expenditures and payroll. This lack of segregation of duties could result in inaccurate financial statement and/or misappropriations of funds.

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2019**

Recommendation:

We recommend that Municipality officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

Views of Responsible Officials and Planned Corrective Action:

The Municipality finance officer, Sondra Waltman, is the contact person responsible for the corective action plan for this comment. The Municipality agrees with this finding and is willing to accept the risk. The Municipality is continuing its work on correcting this deficiency and implementing compensating controls where possible and practical.

Finding 2019-003:

Criteria:

An organization's internal control structure should provide for the preparation of financial statements in accordance with other comprehensive basis of accounting - modified cash basis.

Condition Found:

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

Identification of Repeat Finding:

This is the second consecutive audit report in which this finding has appeared.

Cause/Effect:

This condition may affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2019**

Views of Responsible Officials and Planned Corrective Action:

The Municipality's finance officer, Sondra Waltman, is the contact person responsible for the corrective action plan for this comment. The Municipality is continuing its work on correcting this deficiency.

Finding 2019-004:

Criteria:

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that the accounting records are in accordance with other comprehensive basis of accounting - modified cash basis.

Condition Found:

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the Municipality's existing internal controls, and therefore could have resulted in a material misstatement of the Municipality's financial statements.

Identification of Repeat Finding:

This is the second consecutive audit report in which this finding has appeared.

Cause/Effect:

This condition may affect the Municipality's ability to record, process, summarize and report financial statement data consistent with the assertions of management in the financial statements.

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of the cost of other considerations.

Views of Responsible Officials and Planned Corrective Action:

The Municipality's finance officer, Sondra Waltman, is the contact person responsible for the corrective action plan for this comment. The Municipality of Leola is continuing its work in correcting this deficiency.



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Municipal Council
Municipality of Leola
Leola, 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, each major fund, and the aggregate remaining fund information of the Municipality of Leola South Dakota, (Municipality), as of December 31, 2019, and for the year then ended, and the related notes to the financial statements, which collectively comprises 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 do not express such an 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for the Municipality's legally separate component unit. 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 unit. The Municipality has not issued such reporting entity financial statements.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the Municipality of Leola, South Dakota, as of December 31, 2019.

Unmodified Opinions

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, each major fund, and the aggregate remaining fund information of the Municipality of Leola, South Dakota, as of December 31, 2019, and the changes in financial position and cash flows, 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.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedule, Pension Schedules, Combining Statements, and Schedule of Changes in Long-Term Debt listed in the Table of Contents are presented for the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 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 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.

Calvin Bowen

Mobridge, South Dakota
October 5, 2020

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 146,947	\$ 136,985	\$ 283,932
Restricted Assets			
Cash and cash equivalents	30,122	48,252	78,374
TOTAL ASSETS	177,069	185,237	362,306
NET POSITION:			
Restricted for			
Library Trust Fund	4,375	-	4,375
Revolving Loan Fund	30,122	-	30,122
Revenue Contingency Bonds	-	48,252	48,252
Unrestricted	142,572	136,985	279,557
TOTAL NET POSITION	\$ 177,069	\$ 185,237	\$ 362,306

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

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

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			
				Governmental Activities	Business-Type Activities	Total	
Primary government							
Governmental activities							
General government	\$ 176,472	\$ 9,318	\$ 5	\$ (167,149)	\$ -	\$ -	\$ (167,149)
Public safety	51,226	-	-	(51,226)	-	-	(51,226)
Public works	121,995	-	-	(121,995)	-	-	(121,995)
Health and welfare	251	-	-	(251)	-	-	(251)
Culture and recreation	89,308	4,594	-	(84,714)	-	-	(84,714)
Conservation and development	17,311	-	-	(17,311)	-	-	(17,311)
Miscellaneous	2,709	-	-	(2,709)	-	-	(2,709)
Total governmental activities	459,272	13,912	5	(445,355)	-	-	(445,355)
Business-type activities							
Water	1,242,430	117,551	1,020,544	-	(104,335)	-	(104,335)
Sewer	83,159	109,067	-	-	25,908	-	25,908
Total business-type activities	1,325,589	226,618	1,020,544	-	(78,427)	(78,427)	(78,427)
Total primary government	\$ 1,784,861	\$ 240,530	\$ 1,020,549	\$ (445,355)	\$ (78,427)	\$ (78,427)	\$ (523,782)
General Revenues							
Taxes							
Property taxes				236,199	-	-	236,199
Sales tax				115,362	-	-	115,362
State shared revenue				29,859	-	-	29,859
Debt issued				-	111,584	-	111,584
Unrestricted investment earnings				404	-	-	404
Miscellaneous revenue				17,552	-	-	17,552
Total general revenues				399,376	111,584	-	510,960
Change in net position				(45,979)	33,157	-	(12,822)
Net position - beginning				223,048	152,080	-	375,128
Net position - ending				\$ 177,069	\$ 185,237	\$ -	\$ 362,306

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

MUNICIPALITY OF LEOLA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 142,572	\$ 4,375	\$ 146,947
Restricted cash	-	30,122	30,122
TOTAL ASSETS	<u>142,572</u>	<u>34,497</u>	<u>177,069</u>
FUND BALANCES			
Assigned	-	34,497	34,497
Unassigned	142,572	-	142,572
TOTAL FUND BALANCES	<u>\$ 142,572</u>	<u>\$ 34,497</u>	<u>\$ 177,069</u>

MUNICIPALITY OF LEOLA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED
CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Primary Government		
	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes			
General property taxes	\$ 235,025	\$ -	\$ 235,025
General sales and use taxes	115,362	-	115,362
Amusement taxes	36	-	36
Penalties and interest on delinquent taxes	1,138	-	1,138
Licenses and permits	4,063	-	4,063
State shared revenue			
Bank franchise tax	1,389	-	1,389
Motor vehicle commercial prorate	2,758	-	2,758
Liquor tax reversion	2,265	-	2,265
Motor vehicle licenses (5%)	8,322	-	8,322
Local government highway and bridge fund	15,125	-	15,125
Charges for goods and services			
General government	2,090	-	2,090
Culture and recreation	4,594	-	4,594
Miscellaneous revenue			
Investment earnings	375	29	404
Rentals	3,165	-	3,165
Contributions and donations from private sources	5	-	5
Other	4,754	11,673	16,427
Total Revenues	<u>\$ 400,466</u>	<u>\$ 11,702</u>	<u>\$ 412,168</u>

MUNICIPALITY OF LEOLA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED
CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Primary Government		
	General Fund	Other Governmental Funds	Total Governmental Funds
EXPENDITURES			
General government			
Legislative	\$ -	\$ 23,000	\$ 23,000
Executive	32,908	-	32,908
Elections	941	-	941
Financial administration	83,369	-	83,369
Other	36,254	-	36,254
Public safety			
Police	45,000	-	45,000
Protective inspection	6,226	-	6,226
Public works			
Highways and streets	114,142	-	114,142
Sanitation	7,853	-	7,853
Health and welfare			
Health	251	-	251
Culture and recreation			
Recreation	42,034	-	42,034
Parks	26,051	-	26,051
Libraries	18,443	2,680	21,123
Historical preservation	100	-	100
Conservation and development			
Urban redevelopment and housing	5,150	-	5,150
Economic development and assistance (Industrial development)	2,161	-	2,161
Economic opportunity	10,000	-	10,000
Debt service	-	-	-
Miscellaneous	-	2,709	2,709
Total expenditures	<u>430,883</u>	<u>28,389</u>	<u>459,272</u>
Excess of revenue over (under) expenditures	(30,417)	(16,687)	(47,104)
Other financing sources (uses)			
Sale of municipal property	1,125	-	1,125
Total other financing sources	<u>627,776</u>	<u>17,091</u>	<u>644,867</u>
Net change in fund balances	(29,292)	(16,687)	(45,979)
Fund balance - beginning	<u>171,864</u>	<u>51,184</u>	<u>223,048</u>
Fund Balance - Ending	<u>\$ 142,572</u>	<u>\$ 34,497</u>	<u>\$ 177,069</u>

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

MUNICIPALITY OF LEOLA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2019

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current assets			
Cash and cash equivalents	\$ 9,661	\$ 127,324	\$ 136,985
Restricted cash	-	48,252	48,252
TOTAL ASSETS	9,661	175,576	185,237
NET POSITION:			
Restricted for			
Revenue bond contingency	-	48,252	48,252
Unrestricted	9,661	127,324	136,985
TOTAL NET POSITION	\$ 9,661	\$ 175,576	\$ 185,237

MUNICIPALITY OF LEOLA
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	Totals
OPERATING REVENUE			
Charges for goods and services	\$ 117,551	\$ 109,067	\$ 226,618
Total operating revenue	117,551	109,067	226,618
OPERATING EXPENSES			
Personal services	24,836	24,836	49,672
Other current expense	236,309	10,071	246,380
Capital assets	981,285	-	981,285
Total Operating Expenses	1,242,430	34,907	1,277,337
Operating income	(1,124,879)	74,160	(1,050,719)
NONOPERATING REVENUES (EXPENSES)			
Grants	1,020,544	-	1,020,544
Long-term debt issued	111,584	-	111,584
Debt service (principal)	-	(25,381)	(25,381)
Interest expense and fiscal charges	-	(22,871)	(22,871)
Total nonoperating revenues	1,132,128	(48,252)	(48,252)
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS			
	7,249	25,908	33,157
CHANGE IN NET POSITION	7,249	25,908	33,157
NET POSITION - BEGINNING	2,412	149,668	152,080
NET POSITION - ENDING	\$ 9,661	\$ 175,576	\$ 185,237

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

MUNICIPALITY OF LEOLA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 117,551	\$ 109,067	\$ 226,618
Payments to employees for services	(24,836)	(24,836)	(49,672)
Payments to suppliers of goods and services	(1,217,594)	(10,071)	(1,227,665)
Net cash (used)/provided by operating activities	(1,124,879)	74,160	(1,050,719)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies	1,020,544	-	1,020,544
Net cash (used)/provided by noncapital financing activities	1,020,544	-	1,020,544
CASH FLOWS FROM (FOR) CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	111,584	-	111,584
Principal paid on capital debt	-	(25,381)	(25,381)
Interest paid on capital debt	-	(22,871)	(22,871)
Net cash (used)/provided by capital and related financing activities	111,584	(48,252)	63,332
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,249	25,908	33,157
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,412	149,668	152,080
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 9,661	\$ 175,576	\$ 185,237
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income	\$(1,124,879)	\$ 74,160	\$(1,050,719)

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

MUNICIPALITY OF LEOLA
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(See Independent Auditors' Report)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

The reporting entity of the Municipality of Leola (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 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. 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 Leola, South Dakota (Commission), is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission.

The Municipality has created a Housing and Redevelopment Commission under the authority of South Dakota Codified Law 11-7-7. The financial information of the component unit is available upon request from the Leola Housing and Redevelopment Commission, Leola, South Dakota.

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(See Independent Auditors' Report)

b. Basis of Presentation

Government-wide Financial Statements

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses and 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:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and;
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or;
- c. 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 within their respective fund types:

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(See Independent Auditors' Report)

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.

The Special Revenue funds are not considered major funds: Park Trust Fund, Library Trust Fund, and the Revolving Loan Fund. These funds are reported on the fund financial statements as "Other Governmental Funds".

Proprietary Funds

Enterprise Fund Types - Enterprise funds are 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.

(a) An 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. (SDL 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 system and related facilities. (SDL 9-48-2) This is a major fund.

c. Measurement Focus and Basis of Accounting

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

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(See Independent Auditors' Report)

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 within the limitations of 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.

Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

- a. Recording long-term investments (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

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

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 and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS - Page 5
(See Independent Auditors' Report)

d. Deposits and Investments

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

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Law (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Long-Term Liabilities

Long-term liabilities include, but are not limited to Revenue Bonds and Revolving Funding loans.

As discussed in Note 1c. above, the government-wide State 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 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 with in the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt. The Municipality has presented as supplementary information a Schedule of Changes in Long-Term Debt.

f. 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:

- a: 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.
- b: 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.
- c: 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.

g. Proprietary Funds Revenue and Expense Classifications

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

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(See Independent Auditors' Report)

h. 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 for the purpose of the Statement of Cash Flows.

i. Capital Assets

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

Government-wide Financial Statements

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary to match the cost with the program that benefits from the use of the capital assets.

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 depreciating those assets where appropriate so any capital assets owned by the Municipality and the related depreciation are not reported on the financial statements of the Municipality.

j. Equity Classifications

Government-wide Statements

Equity is classified as Net Position and is displayed in two component:

a: Restricted Net Position - Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

b: Unrestricted Net Position - All other net assets that do not meet the definition of "restricted" or "net invested in capital assets."

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(See Independent Auditors' Report)

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.

k. Application of Net Positions

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 Position are available.

l. Fund Balance Classification and 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 or committed. Fund Balance may be assigned by the Municipal Council or 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 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 Government would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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 deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.11 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 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.

Interest Rate Risk - 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.

Credit Risk - State law limits eligible investments for the Municipality. The Municipality has no investment policy that would further limit its investment choices.

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

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 to the fund making the investment.

NOTE 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 payables 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 statues to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the Municipality.

NOTE 4 - PENSION PLAN

PLAN INFORMATION:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

BENEFITS PROVIDED:

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

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

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

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(See Independent Auditors' Report)

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

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

CONTRIBUTIONS:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Municipality's share of contributions to the SDRS for the calendar years ended December 31, 2019, 2018, and 2017, equal to the required contributions each year, were \$5,879, \$5,799, and \$6,332, respectively.

PENSIONS ASSETS, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES TO PENSIONS:

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

	Governmental Activities	Business- Type Activities	Total
Proportionate share of total pension liability	\$ 412,424	\$ 163,928	\$ 576,352
Less proportionate share of net position restricted for pension benefits	412,774	164,068	576,842
Proportionate share of net pension liability (asset)	<u>\$ (351)</u>	<u>\$ (139)</u>	<u>\$ (490)</u>

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(See Independent Auditors' Report)

At December 31, 2019, the Municipality reported an asset of \$490 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019 and the total pension liability used to calculate the net pension 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 .00462480%, which is a decrease of .0001862% from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the Municipality recognized a pension expense of \$14,479. 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 experiences	\$ 1,922	\$ 222
Changes in assumption	16,927	6,939
Net difference between projected and actual earnings on pension plan investments		2,823
Changes in proportion and difference between Municipality contributions and proportionate share of contributions	1,623	187
Municipality contributions subsequent to the measurement date	3,016	
	<u>23,488</u>	<u>10,171</u>
TOTAL	\$ 23,488	\$ 10,171

\$3,016 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 expense) as follows:

	Year Ended Dec. 31,
2020	\$ 11,168
2021	(1,081)
2022	(820)
2023	1,034
2024	-
Thereafter	<u>-</u>
TOTAL	<u>\$ 10,301</u>

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ACTUARIAL ASSUMPTIONS:

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

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.5% at entry to 3% after 25 years of service
Discount Rate	6.5% net of plan investment expense
Future COLAs	1.88%

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period of July 1, 2011, to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (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	58.00%	4.70%
Fixed Income	30.00%	1.70%
Real Estate	10.00%	4.30%
Cash	2.00%	90.00%
Total	100.00%	

DISCOUNT RATE:

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that employee 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 asset.

SENSITIVITY OF LIABILITY (ASSET) TO CHANGES IN THE DISCOUNT RATE:

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 81,347	\$ (490)	\$ (67,173)

PENSION PLAN FIDUCIARY NET POSITION:

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

NOTE 5 - 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 year ended December 31, 2019, the Municipality managed its risks as follows:

Liability

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Employee

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

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

The Municipality does not carry additional insurance to cover claims in excess of the upper limit.

Unemployment Benefits

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

NOTE 6 - LITIGATION

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

NOTE 7 - SUBSEQUENT EVENTS

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

SUPPLEMENTARY INFORMATION

**MUNICIPALITY OF LEOLA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes				
General property tax	\$ 222,975	\$ 222,975	\$ 235,025	\$ 12,050
General sales and use tax	100,500	100,500	115,362	14,862
Amusement taxes	25	25	36	11
Penalties and interest on delinquent t	600	600	1,138	538
Licenses and permits	3,500	3,500	4,063	563
State shared revenue				
Bank franchise tax	1,300	1,300	1,389	89
Motor vehicle commercial prorated	2,000	2,000	2,758	758
Liquor tax reversion	2,000	2,000	2,265	265
Motor vehicle licenses (5%)	6,000	6,000	8,322	2,322
Local government highway and bridge fund	13,000	13,000	15,125	2,125
County shared revenue				
County road tax (25%)	2,000	2,000	-	(2,000)
Charges for goods and services				
General government	100	100	2,090	1,990
Culture and recreation	3,200	3,200	4,594	1,394
Other	200	200	-	(200)
Miscellaneous revenue				
Investment earnings	125	125	375	250
Rentals	3,000	3,000	3,165	165
Contributions and donations from private sources	150	150	5	(145)
Other	25	25	4,754	4,729
Total revenue	\$ 360,700	\$ 360,700	\$ 400,466	\$ 39,766

(Continued on next page)

**MUNICIPALITY OF LEOLA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
EXPENDITURES				
General government				
Contingency	\$ 35,118	\$ 35,118	\$ -	\$ -
Amount transferred	-	(17,000)	-	18,118
Executive	36,500	36,500	32,908	3,592
Elections	1,000	1,000	941	59
Financial administration	99,000	114,000	83,369	30,631
Other	47,200	47,200	36,254	10,946
Public safety				
Police	45,500	45,500	45,000	500
Fire	500	500	-	500
Protection and inspection	4,100	6,100	6,226	(126)
Public works				
Highways and streets	120,700	120,700	114,142	6,558
Sanitation	6,425	6,425	7,853	(1,428)
Health and welfare				
Health	2,900	2,900	251	2,649
Culture and recreation				
Recreation	58,550	58,550	42,034	16,516
Parks	59,150	59,150	26,051	33,099
Libraries	17,600	17,600	18,443	(843)
Historical Preservation	100	100	100	-
Conservation and development				
Urban redevelopment and housing	7,650	7,650	5,150	2,500
Economic development and assistance (industrial development)	9,400	9,400	2,161	7,239
Economic opportunity	10,000	10,000	10,000	-
Total Expenditures	<u>561,393</u>	<u>561,393</u>	<u>430,883</u>	<u>130,510</u>
Excess revenue over/under expenditures	<u>(200,693)</u>	<u>(200,693)</u>	<u>(30,417)</u>	<u>170,276</u>
Other financing sources/(uses)				
Sale of municipal property	-	-	1,125	1,125
Total other financing sources (uses)	-	-	1,125	1,125
Net change in fund balances	<u>(200,693)</u>	<u>(200,693)</u>	<u>(29,292)</u>	<u>171,401</u>
Fund balance - beginning	<u>171,864</u>	<u>171,864</u>	<u>171,864</u>	<u>-</u>
Fund balance - ending	<u>\$ (28,829)</u>	<u>\$ (28,829)</u>	<u>\$ 142,572</u>	<u>\$ 171,401</u>

**MUNICIPALITY OF LEOLA
NOTES TO SUPPLEMENTARY INFORMATION
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2019**

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/Municipality Commission introduces the annual appropriation ordinance for ensuing fiscal year.
2. After adoption by the Governing Board/Municipality Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board/Municipality Commission to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board/Municipality Commission.

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

The 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 major special revenue funds.

MUNICIPALITY OF LEOLA

NOTES TO SUPPLEMENTARY INFORMATION - Page 2

**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2019**

**NOTE 2 - OTHER COMPREHENSIVE BASIS OF ACCOUNTING MODIFIED CASH
BASIS/BUDGETARY ACCOUNTING BASIS DIFFERENCES**

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

**MUNICIPALITY OF LEOLA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2019**

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Revolving</u>	<u>Library</u>	<u>Nonmajor</u>
	<u>Fund</u>	<u>Trust</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Funds</u>
ASSETS:			
Cash and Cash Equivalents	\$ -	\$ 4,375	\$ 4,375
Restricted Cash and Cash Equivalents	30,122	-	30,122
TOTAL ASSETS	<u>30,122</u>	<u>4,375</u>	<u>34,497</u>
FUND BALANCES:			
Assigned	30,122	4,375	34,497
TOTAL FUND BALANCES	<u>\$ 30,122</u>	<u>\$ 4,375</u>	<u>\$ 34,497</u>

**MUNICIPALITY OF LEOLA
BALANCES - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Revolving Fund	Library Trust Fund	Park Trust Fund	
Revenues:				
Miscellaneous Revenue:				
Investment Earnings	\$ 29	\$ -	\$ -	\$ 29
Other	8,120	3,553	-	11,673
Total Revenue	<u>\$ 8,149</u>	<u>\$ 3,553</u>	<u>\$ -</u>	<u>\$ 11,702</u>
Expenditures:				
General Government				
Legislative	23,000	-	-	23,000
Culture and Recreation:				
Libraries	-	2,680	-	2,680
Miscellaneous:				
Other Expenditures	-	-	2,709	2,709
Total Expenditures	<u>\$ 23,000</u>	<u>\$ 2,680</u>	<u>\$ 2,709</u>	<u>\$ 28,389</u>
Excess of Revenues Over (Under)				
Expenditures	(14,851)	873	(2,709)	(16,687)
Net Change in Fund Balances	(14,851)	873	(2,709)	(16,687)
FUND BALANCE - BEGINNING	<u>44,973</u>	<u>3,502</u>	<u>2,709</u>	<u>51,184</u>
FUND BALANCE - ENDING	<u>\$ 30,122</u>	<u>\$ 4,375</u>	<u>\$ -</u>	<u>\$ 34,497</u>

**MUNICIPALITY OF LEOLA
SCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM**

	2019	2018	2017	2016	2015
Municipality's proportion of the net pension liability (asset)	0.0046248%	0.0048110%	0.0050095%	0.0051493%	0.0047004%
Municipality's proportionate share of net pension liability (asset) \$	(490)	(112)	(455)	17,394	(19,936)
Municipality's covered-employee payroll	\$ 98,896	\$ 100,010	\$ 101,782	\$ 97,914	\$ 85,825
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.50%	-0.11%	-0.45%	17.76%	-23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.09%	100.02%	100.10%	96.89%	104.10%

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

**MUNICIPALITY OF LEOLA
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2019
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)**

Changes of benefit terms:

No changes were made.

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.

**MUNICIPALITY OF LEOLA
SCHEDULE OF CHANGES IN LONG-TERM DEBT
YEAR ENDED DECEMBER 31, 2019**

<u>Indebtedness</u>	<u>Long-Term Debt 01/01/2019</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/2019</u>
BUSINESS TYPE LONG-TERM DEBT:				
Drinking Water State Revolving Funding Loan	\$ -	\$ 111,584	\$ -	\$ 111,584
USDA Rural Development Water & Waste Water Loan	<u>1,155,187</u>	<u>-</u>	<u>25,381</u>	<u>1,129,806</u>
TOTAL	<u>\$ 1,155,187</u>	<u>\$ 111,584</u>	<u>\$ 25,381</u>	<u>\$ 1,241,390</u>