



CITY OF WHITEWOOD

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018



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CITY OF WHITEWOOD

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Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street

P.O. Box 3140, Rapid City, South Dakota 57709

Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT

City Council
City of Whitewood
Whitewood, South Dakota

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF WHITEWOOD** (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 12 and budgetary comparison information and pension schedules on pages 48 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

May 16, 2019

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2018

This section of the City of Whitewood (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended December 31, 2018. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The City's net position from governmental and business-type activities decreased by \$70,868 for the year ended December 31, 2018.

During the year ended December 31, 2018, the City's revenues generated from charges for services, taxes and other revenue of the governmental programs was \$879,945; \$148,806 less than the \$1,028,751 of governmental program expenditures, before transfers.

The City's proprietary funds revenues exceeded expenses by \$77,938 before transfers for the year ended December 31, 2018.

For the year ended December 31, 2018, the general fund reported a decrease in fund balance of \$79,011 primarily due to an increase in total expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.

Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has two proprietary funds – the Water Fund and Sewer Fund.

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

CITY OF WHITEWOOD

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The table below summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

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

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements

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

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

Increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City you need to consider additional nonfinancial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

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

Governmental Activities -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.

Business-Type Activities -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems are included here.

Fund Financial Statements

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

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

The City has two kinds of funds:

Governmental Funds – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

CITY OF WHITEWOOD

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position decreased by 1.37 percent between 2018 and 2017 – decreasing by \$70,868.

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The difference between the City's assets and liabilities is its net position.

	Governmental Activities		Business-type Activities		Total	
	2017	2018	2017	2018	2017	2018
Current & Other Assets	\$1,129,880	\$ 1,021,223	\$ 811,473	\$ 928,101	\$ 1,941,353	\$ 1,949,324
Capital Assets	1,500,912	1,451,347	3,248,662	3,177,219	4,749,574	4,628,566
Total Assets	2,630,792	2,472,570	4,060,135	4,105,320	6,690,927	6,577,890
Pension Related Deferred Outflows of Resources	\$ 63,094	\$ 44,739	\$ 62,331	\$ 55,955	\$ 125,425	\$ 100,694
Long-Term Debt	\$ 415,461	\$ 381,428	\$ 1,134,772	\$ 1,093,781	\$ 1,550,233	\$ 1,475,209
Other Liabilities	42,133	47,395	48,933	51,795	91,066	99,190
Total Liabilities	457,594	428,823	1,183,705	1,145,576	1,641,299	1,574,399
Net Position:						
Net Investment in Capital						
Assets	\$1,096,424	\$ 1,077,485	\$ 2,117,361	\$ 2,087,469	\$ 3,213,785	\$ 3,164,954
Restricted	578,906	526,702	113,715	107,010	692,621	633,712
Unrestricted	560,962	484,299	707,685	821,220	1,268,647	1,305,519
Total Net Position	\$2,236,292	\$ 2,088,486	\$ 2,938,761	\$ 3,015,699	\$ 5,175,053	\$ 5,104,185
Beginning Net Position	\$2,219,309	\$ 2,236,292	\$ 2,864,767	\$ 2,938,761	\$ 5,084,076	\$ 5,175,053
Change in Net Position	16,983	(147,806)	73,994	76,938	90,977	(70,868)
Percentage of Change						
Net Position	0.77%	-6.61%	2.58%	2.62%	1.79%	-1.37%

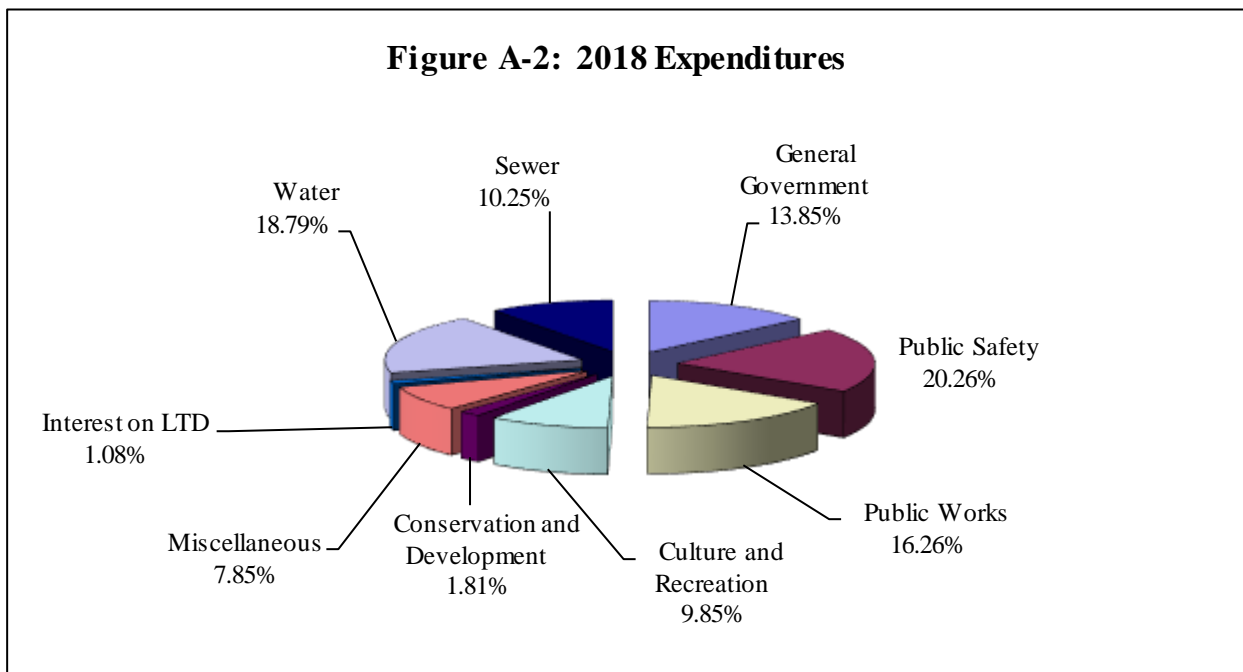
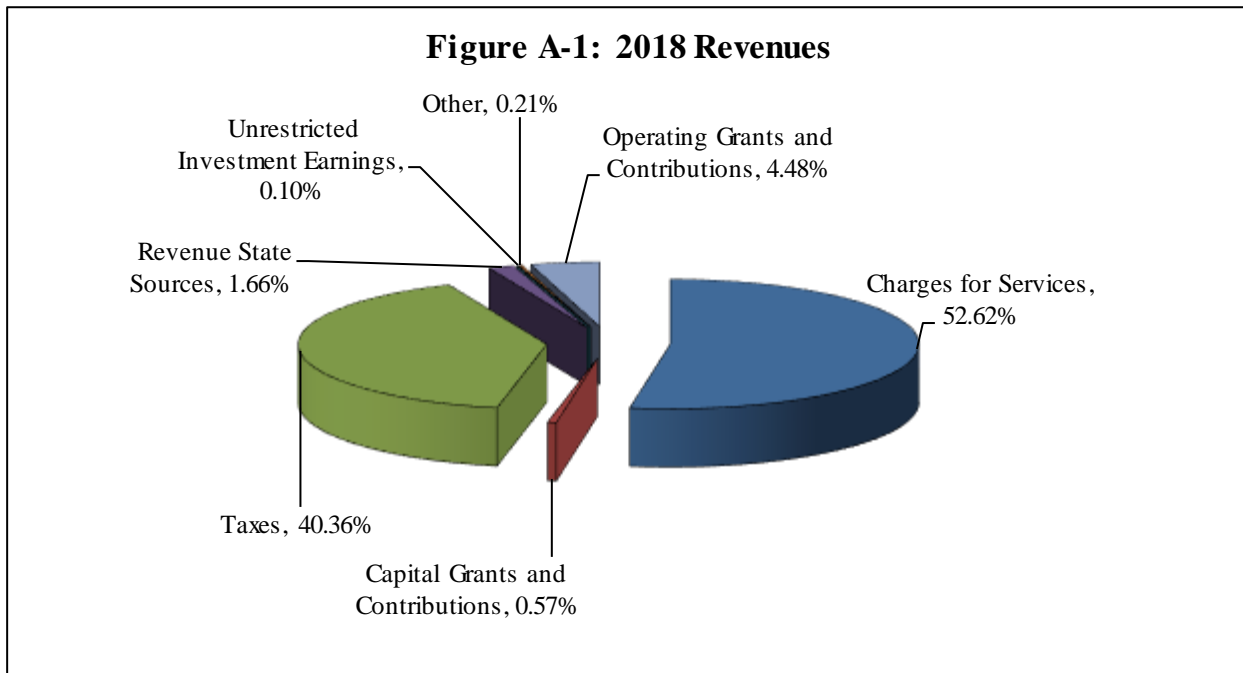
CITY OF WHITEWOOD

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City's revenues (excluding transfers) totaled \$1,378,942 for the year ended December 31, 2018. (See Figure A-1). The total cost of all programs and services increased for the year ended December 31, 2018. The City's expenses cover a range of services, including public works, public safety, culture and recreation, and general government. (See Figure A-2).



CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Change in Net Position (Continued)

Table A-2						
	Total Governmental Activities		Total Business-type Activities		Grand Total	
	2017	2018	2017	2018	2017	2018
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 211,478	\$ 227,685	\$ 483,682	\$ 497,957	\$ 695,160	\$ 725,642
Operating Grants and Contributions	61,320	61,540	-	-	61,320	61,540
Capital Grants and Contributions	10,904	7,819	-	-	10,904	7,819
<i>General Revenues</i>						
Taxes	538,471	556,708	-	-	538,471	556,708
Revenue State Sources	25,002	22,899	-	-	25,002	22,899
Unrestricted Investment Earnings	4,513	377	4,000	1,040	8,513	1,417
Other	2,443	2,917	-	-	2,443	2,917
Total Revenues	\$ 854,131	\$ 879,945	\$ 487,682	\$ 498,997	\$ 1,341,813	\$ 1,378,942
Expenses						
General Government	\$ 192,673	\$ 200,810	\$ -	\$ -	\$ 192,673	\$ 200,810
Public Safety	209,445	293,661	-	-	209,445	293,661
Public Works	179,280	235,757	-	-	179,280	235,757
Culture and Recreation	132,835	142,776	-	-	132,835	142,776
Conservation and Development	15,359	26,280	-	-	15,359	26,280
Interest on Long-Term Debt	16,859	15,687	-	-	16,859	15,687
Miscellaneous	94,337	113,780	-	-	94,337	113,780
Water Services	-	-	274,497	272,475	274,497	272,475
Sewer Services	-	-	135,551	148,584	135,551	148,584
Total Expenses	\$ 840,788	\$ 1,028,751	\$ 410,048	\$ 421,059	\$ 1,250,836	\$ 1,449,810
Excess (Deficit) Revenues						
Before Transfers	\$ 13,343	\$ (148,806)	\$ 77,634	\$ 77,938	\$ 90,977	\$ (70,868)
Transfers	3,640	1,000	(3,640)	(1,000)	-	-
Increase (Decrease) in Net Position	\$ 16,983	\$ (147,806)	\$ 73,994	\$ 76,938	\$ 90,977	\$ (70,868)
Ending Net Position	\$ 2,236,292	\$ 2,088,486	\$ 2,938,761	\$ 3,015,699	\$ 5,175,053	\$ 5,104,185

CITY OF WHITEWOOD

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

During 2018, expenses of the City’s governmental activities exceeded revenues by \$148,806, before transfers. This is a decrease over the prior year, this is primarily due to additions to staff in Public Safety.

Business-type Activities

During 2018, revenues of the City’s business-type activities were more than expenses by \$77,938, before transfers. This is consistent with the previous year results.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

The financial analysis of the City’s funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and two business-type funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSET ADMINISTRATION

The City had invested in a broad range of capital assets at December 31, 2018, including land, buildings, and various machinery and equipment. (See Table A-3)

	Governmental Activities		Business-type Activities	
	2017	2018	2017	2018
Land	\$ 20,200	\$ 20,200	\$ 23,253	\$ 23,253
Buildings	139,046	133,293	507,637	489,605
Improvements	1,159,681	1,128,001	2,714,824	2,657,809
Machinery and Equipment	181,985	169,853	2,948	6,552
Totals	\$ 1,500,912	\$ 1,451,347	\$ 3,248,662	\$ 3,177,219

CITY OF WHITEWOOD

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2018**

LONG-TERM DEBT

At December 31, 2018, the City had \$1,475,209 in long-term debt.

	Governmental Activities		Business-type Activities	
	2017	2018	2017	2018
Sales Tax Revenue Bonds	\$ 114,549	\$ 104,646	\$ -	\$ -
Special Assessment Bonds	289,939	269,216	-	-
Compensated Absences	10,973	7,566	3,471	4,031
Water Revenue Bonds	-	-	805,730	792,455
Sewer Revenue Bonds	-	-	248,901	241,219
State Revolving Fund Loans	-	-	48,464	38,202
NRWA Loan	-	-	28,206	17,874
Total	\$ 415,461	\$ 381,428	\$ 1,134,772	\$ 1,093,781

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the year ended December 31, 2018, the City experienced an increase in total property valuation of \$904,140. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$10,799 for the year ended December 31, 2018. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City experienced an increase in taxable sales of 4 percent during 2018 and has budgeted for an increase in sales tax revenue for 2019.

The City's adopted General Fund budget for 2019 will be \$809,700.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Whitewood Finance Office, 1025 Meade Street, Whitewood, SD 57793.

CITY OF WHITEWOOD

**STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash and Investments (Note 2)	\$ 694,675	\$ 817,582	\$ 1,512,257
Receivables (Note 11)	264,521	49,797	314,318
Restricted Cash and Investments (Notes 2 and 5)	49,473	60,617	110,090
Deposit (Note 10)	12,250	-	12,250
Net Pension Asset (Note 8)	304	105	409
Capital Assets (Note 7):			
Land	20,200	23,253	43,453
Other Capital Assets, Net of Depreciation	1,431,147	3,153,966	4,585,113
TOTAL ASSETS	2,472,570	4,105,320	6,577,890
Deferred Outflows of Resources			
Pension Related Deferred Outflows of Resources (Note 3 and 8)	44,739	55,955	100,694
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,517,309	\$ 4,161,275	\$ 6,678,584
Liabilities:			
Accounts Payable	\$ 27,462	\$ 9,480	\$ 36,942
Other Current Liabilities	19,933	42,315	62,248
Noncurrent Liabilities (Note 5):			
Due Within One Year	39,399	47,279	86,678
Due in More Than One Year	342,029	1,046,502	1,388,531
TOTAL LIABILITIES	428,823	1,145,576	1,574,399
Net Position:			
Net Investment in Capital Assets	1,077,485	2,087,469	3,164,954
Restricted for:			
Debt Service	151,542	50,950	202,492
Deposit - SDPAA (Note 10)	12,250	-	12,250
Library	61,904	-	61,904
Facilities and Promoting the City	255,963	-	255,963
Pension-SDRS (Note 8)	45,043	56,060	101,103
Unrestricted	484,299	821,220	1,305,519
TOTAL NET POSITION	2,088,486	3,015,699	5,104,185
TOTAL LIABILITIES AND NET POSITION	\$ 2,517,309	\$ 4,161,275	\$ 6,678,584

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Expenses	--- Program Revenues ---			Net (Expense) Revenue and		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	----- Changes in Net Position -----		
					Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 200,810	\$ 14,754	\$ -	\$ -	\$ (186,056)	\$ -	\$ (186,056)
Public Safety	293,661	2,984	-	-	(290,677)	-	(290,677)
Public Works	235,757	69,279	-	7,819	(158,659)	-	(158,659)
Culture and Recreation	142,776	7,259	61,540	-	(73,977)	-	(73,977)
Conservation and Development	26,280	-	-	-	(26,280)	-	(26,280)
Miscellaneous	113,780	133,409	-	-	19,629	-	19,629
Interest on Long Term Debt	15,687	-	-	-	(15,687)	-	(15,687)
Total Governmental Activities	1,028,751	227,685	61,540	7,819	(731,707)	-	(731,707)
Business-Type Activities:							
Water	272,475	277,345	-	-	-	4,870	4,870
Sewer	148,584	220,612	-	-	-	72,028	72,028
Total Business-Type Activities	421,059	497,957	-	-	-	76,898	76,898
Total Primary Government	\$ 1,449,810	\$ 725,642	\$ 61,540	\$ 7,819	(731,707)	76,898	(654,809)
General Revenues:							
Taxes:							
Property Taxes					244,752	-	244,752
Sales Taxes					311,956	-	311,956
State Shared Revenue					22,899	-	22,899
Unrestricted Investment Earnings					377	1,040	1,417
Miscellaneous Revenue					2,917	-	2,917
Transfers (Note 6)					1,000	(1,000)	-
Total General Revenue					583,901	40	583,941
Change in Net Position					(147,806)	76,938	(70,868)
Net Position, Beginning					2,236,292	2,938,761	5,175,053
Net Position, Ending					\$ 2,088,486	\$ 3,015,699	\$ 5,104,185

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General Fund	Library Fund	Additional Sales Tax Fund	Economic Development Fund
Assets				
101 Cash and Investments (Note 2)	\$ 479,826	\$ 63,992	\$ 37,926	\$ 112,931
107 Restricted Cash and Investments (Notes 2 and 5)	14,718	-	-	-
108 Property Taxes Receivable	472	-	-	-
115 Accounts Receivable	19,920	-	-	-
121 Special Assessments Receivable - Current	-	-	-	-
123 Special Assessments Receivable - Deferred	-	-	-	-
128 Notes Receivable (Note 11)	-	-	-	105,374
131 Due From Special Assessment Debt Service Fund (Note 12)	32,502	-	-	-
132 Due From State Government - Sales Taxes	4,059	-	125	-
154 Deposit - SDPAA (Note 10)	12,250	-	-	-
Total Assets	\$ 563,747	\$ 63,992	\$ 38,051	\$ 218,305
Liabilities, Deferred Inflows of Resources and Fund Balances				
<i>Liabilities</i>				
202 Accounts Payable	\$ 26,226	\$ 843	\$ 393	\$ -
208 Due To General Fund (Note 12)	-	-	-	-
216 Accrued Wages Payable	16,438	1,245	-	-
220 Customer Deposits	2,250	-	-	-
Total Liabilities	44,914	2,088	393	-
<i>Deferred Inflows of Resources (Note 3)</i>				
245 Unavailable Revenue - Property Taxes	472	-	-	-
246 Unavailable Revenue - Special Assesments	-	-	-	-
Total Deferred Inflows of Resources	472	-	-	-
<i>Fund Balances:</i>				
<i>Nonspendable Fund Balances</i>				
263.02 SDPAA Deposit (Note 10)	12,250	-	-	-
<i>Restricted Fund Balances</i>				
264.01 Debt Service	14,718	-	-	-
264.04 Facilities and Promoting the City	-	-	37,658	218,305
264.05 Library	-	61,904	-	-
<i>Committed Fund Balances</i>				
265.04 Street/Sidewalk and Park Improvements	41,396	-	-	-
<i>Assigned Fund Balances</i>				
266.01 Subsequent Years Budget	102,526	-	-	-
267.00 Unassigned Fund Balances	347,471	-	-	-
Total Fund Balances	518,361	61,904	37,658	218,305
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 563,747	\$ 63,992	\$ 38,051	\$ 218,305

The accompanying notes are an integral part of the financial statements.

Special Assessment Debt Service Fund	Total Governmental Funds
\$ -	\$ 694,675
34,755	49,473
-	472
-	19,920
11,240	11,240
123,331	123,331
-	105,374
-	32,502
-	4,184
-	12,250
\$ 169,326	\$ 1,053,421

\$ -	\$ 27,462
32,502	32,502
-	17,683
-	2,250
32,502	79,897

-	472
134,570	134,570
134,570	135,042

-	12,250
2,254	16,972
-	255,963
-	61,904
-	41,396
-	102,526
-	347,471
2,254	838,482
\$ 169,326	\$ 1,053,421

CITY OF WHITEWOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Total Fund Balances - Governmental Funds \$ 838,482

Amounts reported for governmental activities in the Statement
of Net Position are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. 1,451,347

Long-term liabilities, including bonds payable and compensated absences, are not
due and payable in the current period and therefore are not reported in the funds. (381,428)

Net pension asset reported in governmental activities is not an available financial
resource and therefore is not reported in the funds. 304

Assets, such as delinquent taxes receivable, special assessments receivable and due
from governments, are not available to pay for current period expenditures and
therefore are deferred in the funds. 135,042

Pension related deferred outflows are components of pension asset and
therefore are not reported in the funds. 44,739

Total Net Position - Governmental Funds \$ 2,088,486

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Revenue	General Fund	Library Fund	Additional Sales Tax Fund	Economic Development Fund
<i>Taxes:</i>				
311 General Property Taxes	\$ 245,047	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	291,094	-	20,862	-
319 Penalties and Interest on Delinquent Taxes	764	-	-	-
320 Licenses and Permits	14,754	-	-	-
<i>Intergovernmental Revenue:</i>				
330 Intergovernmental Revenue	-	61,320	100	-
334 State Grants	1,609	-	-	-
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	2,042	-	-	-
335.03 Liquor Tax Reversion	5,667	-	-	-
335.04 Motor Vehicle Licenses (5%)	11,010	-	-	-
335.08 Local Government Highway and Bridge Fund	11,850	-	-	-
335.20 Other	15,190	-	-	-
<i>Charges for Goods and Services:</i>				
344 Sanitation	45,979	-	-	-
345 Health	19	-	-	-
346 Culture and Recreation	5,880	1,360	-	-
349 Other	440	-	-	-
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	2,959	-	-	-
359 Other	25	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings (Loss) on Deposits and Investments	195	16	(24)	91
363 Special Assessments	-	-	-	-
367 Contributions and Donations	120	-	-	-
368 Liquor Operating Agreement Income	133,409	-	-	-
369 Miscellaneous Revenue	800	-	-	2,117
Total Revenue	788,853	62,696	20,938	2,208

Special Assessment		Total Governmental Funds
Debt Service Fund		
\$ -	\$	245,047
-		311,956
-		764
-		14,754
-		61,420
-		1,609
-		2,042
-		5,667
-		11,010
-		11,850
-		15,190
-		45,979
-		19
-		7,240
-		440
-		2,959
-		25
99		377
17,448		17,448
-		120
-		133,409
-		2,917
17,547		892,242

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	94,334	-	-	-
412 Executive	5,297	-	-	-
413 Elections	585	-	-	-
414 Financial Administration	60,147	-	-	-
419 Other	36,182	-	-	-
<i>Public Safety:</i>				
421 Police	251,722	-	-	-
423 Protective Inspection	12,799	-	-	-
<i>Public Works:</i>				
431 Highway and Streets	147,407	-	-	-
432 Sanitation	42,217	-	-	-
<i>Culture and Recreation:</i>				
452 Parks	68,606	-	-	-
455 Library	-	63,209	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	300	-	19,482	-
470 Debt Service	14,718	-	-	-
485 Capital Outlay	20,960	-	10,718	-
<i>Miscellaneous:</i>				
499 Liquor Operating Agreements	113,780	-	-	-
Total Expenditures	869,054	63,209	30,200	-
Other Financing Sources (Uses)				
391.01 Transfers In (Note 6)	1,190	-	-	-
511 Transfers Out (Note 6)	-	-	-	(91)
Total Other Financing Sources (Uses)	1,190	-	-	(91)
Net Change in Fund Balances	(79,011)	(513)	(9,262)	2,117
Fund Balances - December 31, 2017	597,372	62,417	46,920	216,188
Fund Balances - December 31, 2018	\$ 518,361	\$ 61,904	\$ 37,658	\$ 218,305

The accompanying notes are an integral part of the financial statements.

Special Assessment Debt Service Fund	Total Governmental Funds
-	94,334
-	5,297
-	585
-	60,147
-	36,182
-	251,722
-	12,799
-	147,407
-	42,217
-	68,606
-	63,209
-	19,782
31,595	46,313
-	31,678
-	113,780
31,595	994,058
-	1,190
(99)	(190)
(99)	1,000
(14,147)	(100,816)
16,401	939,298
\$ 2,254	\$ 838,482

CITY OF WHITEWOOD

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2018

Net change in fund balances - total governmental funds \$ (100,816)

Amounts reported for governmental activities in the Statement of Activities are different because:

This amount represents capital asset purchases which are reported as expenditures on the fund financial statements, but increase assets on the Statement of Net Position. 31,678

This amount represents the current year depreciation expense reported in the Statement of Activities, which is not reported on the fund financial statements because it does not require the use of current financial resources. (81,243)

The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available." (1,059)

Governmental funds report special assessments as revenue when available, but the Statement of Activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises. (11,238)

Changes in the pension related deferred outflows are direct components of pension asset and are not reflected in the governmental funds. 17,521

Pension expense reported in the Statement of Activities does not require the use of current financial resources and are not reported as expenditures in the governmental funds. (36,682)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 30,626

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. 3,407

Change in Net Position of Governmental Activities \$ (147,806)

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Assets			
Current Assets			
101 Cash and Investments (Note 2)	\$ 333,156	\$ 484,426	\$ 817,582
107 Restricted Cash and Investments (Notes 2 and 5)	47,933	12,684	60,617
115 Accounts Receivable	20,130	17,405	37,535
117 Unbilled Accounts Receivable	6,710	5,552	12,262
200 Net Pension Asset (Note 8)	60	45	105
Total Current Assets	407,989	520,112	928,101
Capital Assets (Note 7):			
160 Land	-	23,253	23,253
162 Buildings	664,728	845,641	1,510,369
163 Accumulated Depreciation - Buildings	(208,287)	(812,477)	(1,020,764)
164 Improvements Other Than Buildings	2,609,674	1,504,525	4,114,199
165 Accumulated Depreciation - Improvements Other than Buildings	(900,633)	(555,757)	(1,456,390)
166 Machinery and Equipment	95,045	72,435	167,480
167 Accumulated Depreciation - Machinery and Equipment	(93,613)	(67,315)	(160,928)
Total Noncurrent Assets	2,166,914	1,010,305	3,177,219
Total Assets	2,574,903	1,530,417	4,105,320
Deferred Outflows of Resources:			
196 Pension Related Deferred Outflows (Notes 3 and 8)	26,153	29,802	55,955
Total Assets and Deferred Outflows of Resources	\$ 2,601,056	\$ 1,560,219	\$ 4,161,275

The accompanying notes are an integral part of the financial statements.

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Liabilities and Net Position			
Current Liabilities			
202 Accounts Payable	\$ 5,547	\$ 3,933	\$ 9,480
205 Current Portion of Long-Term Debt (Note 5)	24,499	18,749	43,248
215 Accrued Interest Payable	2,252	-	2,252
216 Accrued Wages Payable	2,747	2,104	4,851
220 Customer Deposits	19,423	15,789	35,212
233 Accrued Leave Payable (Note 5)	2,105	1,926	4,031
Total Current Liabilities	56,573	42,501	99,074
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 5)	785,830	260,672	1,046,502
Total Liabilities	842,403	303,173	1,145,576
Net Position			
253.1 Net Investment in Capital Assets	1,356,585	730,884	2,087,469
253.2 Restricted for Debt Service	38,266	12,684	50,950
264 Restricted for Pension (Note 8)	26,213	29,847	56,060
252 Unrestricted Net Position	337,589	483,631	821,220
Total Net Position	1,758,653	1,257,046	3,015,699
Total Liabilities and Net Position	\$ 2,601,056	\$ 1,560,219	\$ 4,161,275

CITY OF WHITEWOOD

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Operating Revenue			
380 Charges for Goods and Services (Note 5)	\$ 277,345	\$ 220,612	\$ 497,957
Total Operating Revenue	277,345	220,612	497,957
Operating Expenses			
410 Personal Services	90,166	73,033	163,199
420 Other Current Expense	77,230	34,868	112,098
457 Depreciation	69,362	30,978	100,340
Total Operating Expenses	236,758	138,879	375,637
Operating Income	40,587	81,733	122,320
Non-Operating Income (Expense)			
361 Earnings on Deposits and Investments	484	556	1,040
470 Interest Expense and Fiscal Charges	(35,717)	(9,705)	(45,422)
Total Non-Operating Expense	(35,233)	(9,149)	(44,382)
Income before Transfers	5,354	72,584	77,938
Transfers			
511 Transfers Out (Note 6)	(444)	(556)	(1,000)
Total Transfers	(444)	(556)	(1,000)
Change in Net Position	4,910	72,028	76,938
Net Position - December 31, 2017	1,753,743	1,185,018	2,938,761
Net Position - December 31, 2018	\$ 1,758,653	\$ 1,257,046	\$ 3,015,699

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 279,176	\$ 220,994	\$ 500,170
Payments to Suppliers	(77,496)	(33,228)	(110,724)
Payments to Employees	(85,819)	(69,740)	(155,559)
Net Cash Flows Provided by Operating Activities	115,861	118,026	233,887
Cash Flows Used in Noncapital Financing Activities:			
Transfers Out	(444)	(556)	(1,000)
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(22,499)	(6,398)	(28,897)
Principal Paid on Capital Debt	(23,607)	(17,944)	(41,551)
Interest Paid	(35,717)	(9,705)	(45,422)
Net Cash Flows Used in Capital and Related Financing Activities	(81,823)	(34,047)	(115,870)
Cash Flows Provided by Investing Activities:			
Earnings on Deposit and Investments	484	556	1,040
Increase in Cash and Cash Equivalents	34,078	83,979	118,057
Cash and Cash Equivalents - December 31, 2017	347,011	413,131	760,142
Cash and Cash Equivalents - December 31, 2018	\$ 381,089	\$ 497,110	\$ 878,199
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities			
Operating Income	\$ 40,587	\$ 81,733	\$ 122,320
<i>Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities:</i>			
Depreciation Expense	69,362	30,978	100,340
Change in Assets and Liabilities:			
Accounts Receivable and Unbilled Accounts Receivable	1,391	(291)	1,100
Pension Asset	188	141	329
Pension Related Deferred Outflows	3,634	2,742	6,376
Accounts Payable	(266)	1,640	1,374
Accrued Wages Payable	204	171	375
Customer Deposits	440	673	1,113
Accrued Leave Payable	321	239	560
Net Cash Flows Provided by Operating Activities	\$ 115,861	\$ 118,026	\$ 233,887

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

(1) Summary of Significant Accounting Policies

Reporting Entity

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

The City participates in a cooperative unit with Northern Hills Multi-Jurisdictional Drug Task Force. See Note 9 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

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

Fund Financial Statements:

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

1. Total assets, liabilities, deferred inflows and outflows, 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.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued):

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

Governmental Funds:

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

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

Library Fund – to account for the fines and similar charges deposited into the library board bank account (SDCL 14-2-42). This fund is a major fund.

Additional Sales Tax Fund – to account for an additional one percent gross receipts tax which may be used only for acquisition of land, capital improvement, and promotion of the City. This fund is a major fund.

Economic Development Fund – to account for the CDBG monies received in 1991. The money is used to create revolving loans for economic development purposes. This fund is a major fund.

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

Special Assessment Debt Service Fund – to account for assessment payments from property owners which are used only for the payment of the Special Assessment debt principal, interest, and related cost. This fund is a major fund.

Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Whitewood, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2018, are property, sales tax and special assessments.

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

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. There are no significant inter-fund utility charges.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(1) Summary of Significant Accounting Policies (Continued)

Interfund Eliminations

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 fund financial statements have been eliminated or reclassified, as follows: In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities column 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.

Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over 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:

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

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Government-wide Financial Statements: (Continued)

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 10,000	Straight-line	15-75 years
Buildings	\$ -0-	Straight-line	50 years
Machinery and Equipment	\$ 2,500	Straight-line	5-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of sales tax, water, and sewer revenue bonds; state revolving loan funds; special assessment debt; and compensated absences.

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

Program Revenues

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

1. Charges for services – 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 – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018

(1) Summary of Significant Accounting Policies (Continued)

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, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of the cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

Equity Classifications

Government-wide Financial Statements:

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

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

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

Governmental Funds:

The City classifies governmental fund balances as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form 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 action of the Mayor and the City Council.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018

(1) Summary of Significant Accounting Policies (Concluded)

Equity Classifications (Continued)

The City classifies governmental fund balances as follows (Continued):

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories.

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

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

Proprietary Funds:

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

Inventory

The City maintains no significant amounts of inventory at December 31, 2018.

(2) Deposits and Investments

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

Deposits – The City’s 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 duly authorized to do business in South Dakota.

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

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

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(2) Deposits and Investments (Continued)

As of December 31, 2018, the City’s cash consisted only of checking and savings. The bank balances at December 31, 2018 are as follows:

	<u>Bank Balance</u>
Insured - FDIC	\$ 264,153
Uninsured, collateralized in accordance with SDCL 4-6A-3	549,388
Total Deposits	\$ 813,541

Investments of the City consist of the following:

	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value at 12/31/2018</u>
Certificates of Deposit (a)	Unrated	1-5 years	782,697
Total Investments			\$ 782,697

(a) The City is invested in negotiable participating certificates of deposit. The certificates of deposit of the City are in violation of state law as noted above.

Credit Risk:

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

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2018, none of the City’s deposits were exposed to custodial credit risk.

Concentration of Credit Risk:

The City places no limit on the amount that may be invested in any one issuer. More than five percent of the City’s certificates of deposit are in: Capital One Bank Glen VA CD (36 percent), Sallie May Bank CD (9 percent), Ally Bank CD Midvale, UT (13 percent), Comenity Bank Jumbo CD (25 percent) and Bank of Oklahoma CD (13 percent).

Interest Rate Risk:

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

Assignment of Investment Income:

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City’s policy per ordinance is to credit all income from investments to the fund making the investment and then transferring the cash to the General Fund for spending purposes, except for the Library Fund.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(3) Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that apply to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period. Deferred outflows of resources consist of pension activity.

In addition to liabilities, the Governmental Funds Balance Sheet reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as inflow of resources until the applicable future period. Deferred inflows of resources consist of property taxes and special assessments.

(4) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

(5) Long-Term Debt

	Balance 12/31/2017	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2018	Due Within One Year
Primary Government:					
Governmental Activities:					
Sales Tax Revenue Bonds	\$ 114,549	\$ -	\$ 9,903	\$ 104,646	\$ 10,331
Special Assessment Bonds	289,939	-	20,723	269,216	21,502
Compensated Absences	10,973	10,366	13,773	7,566	7,566
Total Governmental Activities	415,461	10,366	44,399	381,428	39,399
Business-type Activities:					
Water Revenue Bonds	805,730	-	13,275	792,455	13,882
Sewer Revenue Bonds	248,901	-	7,682	241,219	5,457
State Revolving Fund Loans	48,464	-	10,262	38,202	13,292
NRWA Loan	28,206	-	10,332	17,874	10,617
Compensated Absences	3,471	3,479	2,919	4,031	4,031
Total Business-Type Activities	1,134,772	3,479	44,470	1,093,781	47,279
Total Primary Government	\$ 1,550,233	\$ 13,845	\$ 88,869	\$ 1,475,209	\$ 86,678

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

(5) Long-Term Debt (Continued)

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

Revenue Bonds

Rural Development Water Revenue Bonds, Series 2007; bears interest at 4.375 percent; due in monthly installments of \$4,028 through January 2048. Financed through the Water Fund. \$ 792,455

Rural Development Sewer Revenue Bonds, Series 2010; bears interest at 3.00 percent; due in monthly installments of \$1,057 through December 2047. Financed through the Sewer Fund. 241,219

Sales Tax Revenue Bond, Series 2004; bears interest at 4.375 percent; due in monthly installments of \$1,227 through June 2026. Financed through the General Fund. 104,646

Special Assessments:

Special Assessment Bond, Series 2010; bears interest at 3.75 percent; due in annual installments of \$31,595 through December 2030. Financed through the Debt Service Fund. 269,216

State Revolving Fund Revenue Bonds:

State Revolving Fund Revenue Bonds, Series 2001; bears interest at 5 percent; due in quarterly installments of \$3,739 through July 2021. Financed through the Sewer Fund. 38,202

Loan:

National Rural Water Association Loan, 2010; bears interest at 3.00 percent; due in monthly installments of \$917 through August 2020. Financed through the Water Fund. 17,874

1,463,612

Compensated Absences

Governmental Funds 7,566

Water Fund 2,105

Sewer Fund 1,926

Total Compensated Absences 11,597

Total Long-Term Debt \$ 1,475,209

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(5) Long-Term Debt (Continued)

The annual requirements to amortize long-term debt outstanding as of December 31, 2018, except for compensated absences, are as follows:

	Revenue Bonds		Special Assessments	
	Interest	Principal	Interest	Principal
2019	\$ 46,058	\$ 29,670	\$ 10,093	\$ 21,502
2020	44,842	30,896	8,452	22,282
2021	43,512	32,226	7,584	23,143
2022	42,155	33,583	7,584	24,011
2023	40,741	34,997	6,683	24,912
2024-2028	202,394	176,296	18,703	139,272
2029-2033	148,471	156,629	17,501	14,094
2034-2038	113,470	191,630	-	-
2039-2043	70,447	234,653	-	-
2044-2048	68,161	217,740	-	-
Total	\$ 820,251	\$ 1,138,320	\$ 76,600	\$ 269,216

	State Revolving		NRWA Loan		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2019	\$ 1,663	\$ 13,292	\$ 391	\$ 10,617	\$ 58,205	\$ 75,081
2020	986	13,969	82	7,257	54,362	74,404
2021	274	10,941	-	-	51,370	66,310
2022	-	-	-	-	49,739	57,594
2023	-	-	-	-	47,424	59,909
2024-2028	-	-	-	-	221,097	315,568
2029-2033	-	-	-	-	165,972	170,723
2034-2038	-	-	-	-	113,470	191,630
2039-2043	-	-	-	-	70,447	234,653
2044-2048	-	-	-	-	68,161	217,740
Total	\$ 2,923	\$ 38,202	\$ 473	\$ 17,874	\$ 900,247	\$ 1,463,612

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(5) Long-Term Debt (Concluded)

Business-type Activities

The City has pledged future revenues of the Water Fund and Sewer Fund for the retirement of debt issuances associated with those funds through the maturity dates listed above. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year.

Funds	Water Fund	Sewer Fund
Current Year Principal and Interest	\$ 59,324	\$ 27,649
Pledged Revenue	277,345	220,612

Restricted Cash and Investments:

Debt covenants require \$106,930 of reserves. The City has restricted \$110,090 of cash and investments for debt service as of December 31, 2018.

(6) Interfund Transfers

Interfund transfers during the year ended December 31, 2018, were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 1,190	\$ -
Special Assessment Debt Service Fund	-	99
Water Fund	-	444
Sewer Fund	-	556
Economic Development Fund	-	91
Total Transfers	\$ 1,190	\$ 1,190

Transfers are used to move interest earnings from the fund that earned the revenue to the General Fund for reporting in the governmental funds statement of revenue, expenditures and changes in fund balances and government-wide statement of activities in accordance with the policy adopted by the City.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(7) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31 is as follows:

<i>Governmental Activities:</i>	Balance <u>12/31/2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2018</u>
Capital Assets, not being Depreciated:				
Land	\$ 20,200	\$ -	\$ -	\$ 20,200
Total Capital Assets, not being Depreciated	20,200	-	-	20,200
Capital Assets, being Depreciated:				
Buildings	245,458	-	-	245,458
Improvements Other Than Buildings	1,511,543	-	-	1,511,543
Machinery and Equipment	667,342	31,678	-	699,020
Total Capital Assets, being Depreciated	2,424,343	31,678	-	2,456,021
Less Accumulated Depreciation for:				
Buildings	106,412	5,753	-	112,165
Improvements Other Than Buildings	351,862	31,680	-	383,542
Machinery and Equipment	485,357	43,810	-	529,167
Total Accumulated Depreciation	943,631	81,243	-	1,024,874
Total Governmental Activities Capital Assets, being Depreciated, Net	1,480,712	(49,565)	-	1,431,147
Total Governmental Capital Assets, Net	\$ 1,500,912	\$ (49,565)	\$ -	\$ 1,451,347

Depreciation expense was charged to functions as follows:

Public Works	\$ 47,991
General Government	2,211
Culture and Recreation	7,959
Public Safety	16,584
Conservation and Development	6,498
Total Depreciation Expense - Governmental	\$ 81,243

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018

(7) Changes in Capital Assets (Continued)

	Balance <u>12/31/2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2018</u>
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 23,253	\$ -	\$ -	\$ 23,253
Total Capital Assets, not being Depreciated	23,253	-	-	23,253
Capital Assets, being Depreciated:				
Buildings	1,510,369	-	-	1,510,369
Improvements Other Than Buildings	4,091,702	22,497	-	4,114,199
Machinery and Equipment	161,080	6,400	-	167,480
Total Capital Assets, being Depreciated	5,763,151	28,897	-	5,792,048
Less Accumulated Depreciation for:				
Buildings	1,002,732	18,032	-	1,020,764
Improvements Other Than Buildings	1,376,878	79,512	-	1,456,390
Machinery and Equipment	158,132	2,796	-	160,928
Total Accumulated Depreciation	2,537,742	100,340	-	2,638,082
Total Business-type Activities Capital Assets, being Depreciated, Net	3,225,409	(71,443)	-	3,153,966
Total Business-type Capital Assets, Net	\$ 3,248,662	\$ (71,443)	\$ -	\$ 3,177,219

Depreciation expense was charged to functions as follows:

Water	\$ 69,362
Sewer	30,978
Total Depreciation Expense - Business-type	\$ 100,340

(8) Pension Plan

All employees, working more than 20 hours per week during the year, participate in the 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 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.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018

(8) Pension Plan (Continued)

Benefits Provided (Continued):

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.

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 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 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2018, 2017, and 2016 were **\$23,608**, \$20,662, and \$19,814, respectively, equal to the required contributions each year.

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(8) Pension Plan (Continued)

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2018, SDRS is 100.02 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of June 30, 2018 and reported by the City as of December 31, 2018, are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 1,594,799	\$ 554,050	\$ 2,148,849
Less: Proportionate Share of Total Pension Asset	(1,594,495)	(553,945)	(2,148,440)
Proportionate Share of Net Pension Asset	\$ 304	\$ 105	\$ 409

At December 31, 2018, the City reported an asset of \$409 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2018, the City's proportion was 0.0175621 percent, which is a increase of .0005 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense of \$49,475. At December 31, 2018, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 15,481	\$ -
Changes in Assumption	103,988	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	(30,955)	-
City Contributions Subsequent to the Measurement Date	12,180	-
Total	\$ 100,694	\$ -

Deferred outflow of resources includes \$12,180 resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2019	\$ 55,849
2020	41,547
2021	(5,448)
2022	(3,434)
	\$ 88,514

Actuarial Assumptions:

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

CITY OF WHITEWOOD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(8) Pension Plan (Continued)

Actuarial Assumptions (Continued):

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

Mortality rates were based on 97 percent of the RP-2014 Mortality Table, 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension asset was 6.50 percent. 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 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.

CITY OF WHITEWOOD

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(8) Pension Plan (Concluded)

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

	1% Decrease	Current Discount Rate	1% Increase
City’s Proportionate Share of the Net Pension (Asset)/Liability	\$ (309,354)	\$ (409)	\$ 252,386

Pension Plan Fiduciary Net Position:

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

(9) Joint Venture

The City participates in a joint venture, known as the Northern Hills Multi-Jurisdictional Drug Task Force, formed for the purpose of implementing and improving state and local drug law enforcement.

The members of the joint venture, each with 10 percent participation, are as follows:

Butte County	Newell City
Lawrence County	Deadwood City
Meade County	Belle Fourche City
Spearfish City	Lead City
Sturgis City	Whitewood City

The joint venture’s governing board is composed of 10 representatives, who are the sheriffs from each county and the police chief for each city. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The City retains no equity in the net position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Lawrence County Sheriff’s Office.

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2018, the City managed its risks as follows:

Employee Health Insurance:

The City carries health insurance coverage from a commercial provider. The coverage includes a \$2,000,000 lifetime maximum payment per person. The City pays a monthly premium to provide health insurance coverage for its employees.

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

CITY OF WHITEWOOD

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(10) Risk Management (Continued)

Liability Insurance:

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

The agreement with the SDPAA provides that the above coverage will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for 100% of the amount allocated to the cumulative reserve fund. As of December 31, 2018, the City has a vested balance in the cumulative reserve fund of **\$12,250**.

The City carries a \$2,000 deductible for the police and fire coverage and \$100 to \$250 deductible for the vehicle coverage.

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

Worker's Compensation:

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

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

Unemployment Benefits:

The City pays for unemployment benefits as incurred.

CITY OF WHITEWOOD

**NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2018**

(11) Loan and Note Receivable

The City loaned **\$40,000** from the Economic Development Fund to the West River Foundation (the Foundation) during 2003, which is to be repaid to the City upon default of the agreement or at such time the Foundation chooses to repay the loan. The loan receivable is non-interest bearing and unsecured.

In 2016, the City loaned \$53,835 from the Economic Development Fund to Whitewood Creek Chiropractic P.C. The note receivable is to be repaid through monthly payments of \$372 for fifteen years, including interest at 3 percent. The balance of the note receivable at December 31, 2018 was **\$44,812**. The note receivable is due in full in January 2031 and is secured by substantially all assets of Whitewood Creek Chiropractic P.C. and a personal guaranty of the owners.

In 2018, the City loaned \$25,000 from the Economic Development Fund to Chiller Haus Bed and Breakfast. The note receivable is to be repaid through monthly payments of \$449 for five years, including interest at 3 percent. The balance of the note receivable at December 31, 2018 was **\$20,562**. The note receivable is due in full in December 2023 and is secured by substantially all assets of Chiller Haus Bed and Breakfast.

(12) Interfund Activity

The Special Assessment Debt Service Fund borrowed \$32,502 from the General Fund for operations at December 31, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WHITEWOOD

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

Revenue	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
<i>Taxes:</i>				
311 General Property Taxes	\$ 248,700	\$ 248,700	\$ 245,047	\$ (3,653)
313 General Sales and Use Taxes	280,200	280,200	291,094	10,894
319 Penalties and Interest on Delinquent Taxes	1,500	1,500	764	(736)
320 Licenses and Permits	32,200	32,200	14,754	(17,446)
<i>Intergovernmental Revenue:</i>				
334 State Grants	-	-	1,609	1,609
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	2,000	2,000	2,042	42
335.03 Liquor Tax Reversion	8,000	8,000	5,667	(2,333)
335.04 Motor Vehicle Licenses (5%)	12,000	12,000	11,010	(990)
335.08 Local Government Highway and Bridge Fund	15,000	15,000	11,850	(3,150)
335.20 Other	25,000	25,000	15,190	(9,810)
<i>County Shared Revenue:</i>				
338.02 County HBR Tax	1,000	1,000	-	(1,000)
<i>Charges for Goods and Services:</i>				
344 Sanitation	44,000	44,000	45,979	1,979
345 Health	-	-	19	19
346 Culture and Recreation	6,000	6,000	5,880	(120)
349 Other	2,100	2,100	440	(1,660)
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	1,000	1,000	2,959	1,959
359 Other	-	-	25	25
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	7,000	7,000	195	(6,805)
367 Contributions and Donations	1,000	1,000	120	(880)
368 Liquor Operating Agreement Income	120,500	120,500	133,409	12,909
369 Miscellaneous Revenue	2,500	2,500	800	(1,700)
Total Revenue	809,700	809,700	788,853	(20,847)

CITY OF WHITEWOOD

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	74,800	99,800	94,334	5,466
412 Executive	5,175	5,175	5,297	(122)
413 Elections	650	650	585	65
414 Financial Administration	70,500	70,500	60,147	10,353
419 Other	42,500	49,500	36,182	13,318
<i>Public Safety:</i>				
421 Police	263,210	276,210	270,030	6,180
423 Protective Inspection	11,200	14,200	12,799	1,401
<i>Public Works:</i>				
431 Highways and Streets	128,050	128,050	147,407	(19,357)
432 Sanitation	44,000	44,000	42,217	1,783
<i>Culture and Recreation:</i>				
452 Parks	65,500	76,500	71,258	5,242
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	300	300	300	-
470 Debt Service	14,750	14,750	14,718	32
499 Liquor Operating Agreements	100,700	133,700	113,780	19,920
Total Expenditures	821,335	913,335	869,054	44,281
Other Financing Sources:				
391.01 Transfers In	-	-	1,190	1,190
Total Other Financing Sources	-	-	1,190	1,190
Net Change in Fund Balance	(11,635)	(103,635)	(79,011)	24,624
Fund Balance - December 31, 2017	597,372	597,372	597,372	-
Fund Balance - December 31, 2018	\$ 585,737	\$ 493,737	\$ 518,361	\$ 24,624

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
LIBRARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Intergovernmental Revenue:</i>				
330 Intergovernmental Revenue	\$ 61,320	\$ 61,320	\$ 61,320	\$ -
<i>Miscellaneous Revenue:</i>				
346 Culture and Recreation	-	-	1,360	1,360
361 Earnings on Deposits and Investments	500	500	16	(484)
369 Miscellaneous Revenue	500	500	-	(500)
Total Revenue	62,320	62,320	62,696	376
Expenditures				
<i>Culture and Recreation:</i>				
455 Library	61,350	69,850	63,209	6,641
Total Expenditures	61,350	69,850	63,209	6,641
Net Change in Fund Balance	970	(7,530)	(513)	7,017
Fund Balance - December 31, 2017	62,417	62,417	62,417	-
Fund Balance - December 31, 2018	\$ 63,387	\$ 54,887	\$ 61,904	\$ 7,017

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 ADDITIONAL SALES TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 16,000	\$ 16,000	\$ 20,862	\$ 4,862
<i>Intergovernmental Revenue:</i>				
330 Intergovernmental Revenue	-	-	100	100
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	-	-	(24)	(24)
Total Revenue	16,000	16,000	20,938	4,938
Expenditures				
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	23,000	34,000	30,200	3,800
Total Expenditures	23,000	34,000	30,200	3,800
Net Change in Fund Balance	(7,000)	(18,000)	(9,262)	8,738
Fund Balance - December 31, 2017	46,920	46,920	46,920	-
Fund Balance - December 31, 2018	\$ 39,920	\$ 28,920	\$ 37,658	\$ 8,738

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET (LIABILITY)
DECEMBER 31, 2018**

	2018	2017	2016	2015
City's Proportion of the Net Pension Asset (Liability)	0.0175621%	0.01701530%	0.01762130%	0.01890400%
City's Proportionate Share of Net Pension Asset (Liability)	\$ 409	\$ 1,544	\$ (59,523)	\$ 80,177
City's Covered-Employee Payroll (Plan Fiscal Year)	\$ 323,905	\$ 303,007	\$ 287,227	\$ 313,661
City's Proportionate Share of the Net Pension Asset (Liability) as a Percentage of its Covered-Employee Payroll	0.13%	0.51%	-20.72%	25.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset (Liability)	100.02%	100.10%	96.89%	104.10%

CITY OF WHITEWOOD

**SCHEDULE OF THE CITY PENSION CONTRIBUTIONS
DECEMBER 31, 2018**

	2018	2017	2016	2015
Contractually Required Contribution	\$ 23,608	\$ 20,662	\$ 19,814	19,869
Contributions in Relation to the Contractually Required Contribution	23,608	20,662	19,814	19,869
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll (Calendar Year)	\$ 374,196	\$ 307,068	\$ 295,338	291,279
Contributions as a Percentage of Covered- Employee Payroll	6.3%	6.7%	6.7%	6.8%

CITY OF WHITEWOOD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2018

(1) Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2018.
7. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds and debt service funds. The City did not adopt a budget for the Economic Development Fund for the year ended December 31, 2018.
8. Budgets for the General Fund and major special revenue funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

The financial statements prepared in conformity with USGAAP 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.

OTHER REPORTS



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

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*

City Council
City of Whitewood
Whitewood, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the **City of Whitewood** (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings, as #2018-001 and #2018-002 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as #2018-003 and #2018-004 to be a significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters which is described in the Schedule of Findings as #2018-004 that is required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

May 16, 2019

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS
DECEMBER 31, 2018**

Current Year Audit Findings and Recommendations

Material Weaknesses

Finding No. 2018-001: Financial Statement Preparation

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do this with cities of your size.

Criteria and Effect: It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, we have answered any questions they might have, and we have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: See City's Corrective Action Plan.

Finding No. 2018-002: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed several audit adjustments. Adjustments included rolling forward fund balance, adjusting capital assets and depreciation expense, recording net pension asset and related activity and various reclassification entries.

Criteria and Effect: These adjustments were not identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Recommendation: We recommend the City's operations be continually reviewed for potential changes in the accounting processes so that the appropriate journal entries can be made throughout the year. The balance sheet accounts should be adjusted to actual at year end.

Response/Corrective Action Plan: See City's Corrective Action Plan.

CITY OF WHITEWOOD

**SCHEDULE OF FINDINGS (CONTINUED)
DECEMBER 31, 2018**

Current Year Audit Findings and Recommendations (Continued)

Significant Deficiencies

Finding No. 2018-003: Segregation of Duties

Condition and Cause: The City Finance Office lacks adequate segregation of duties over the cash receipts and disbursements processes. This is not uncommon for a finance office with only two employees.

Criteria and Effect: Lack of adequate segregation of duties exists and could result in misappropriated cash receipts or disbursements.

Recommendation: We recommend a member of the City Council continue to review the bank statements, including cancelled check copies, and adjustments to customer accounts, in detail, to mitigate the risk of misappropriated cash receipts and disbursements. The Mayor and Finance Committee should meet quarterly to review budget to actual expense reports for any unusual overages/underages.

Response/Corrective Action Plan: See City's Corrective Action Plan.

Finding No. 2018-004: Certificates of Deposit

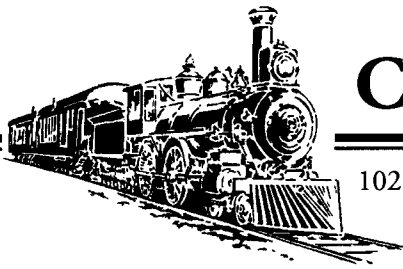
Condition and Cause: The City is invested in participating and negotiable certificates of deposit.

Criteria and Effect: South Dakota Codified Law 4-5-6 indicates the types of investments that the City may invest public funds. Based on 4-5-6, the City is in violation of State law.

Recommendation: We recommend that the City re-evaluate their investment policy and invest these funds in investments allowed by SDCL 4-5-6. It is our understanding that the City will be moving these investments to allowable investments in 2019.

Response/Corrective Action Plan: See City's Corrective Action Plan

MANAGEMENT RESPONSE



City of Whitewood

1025 Meade St., Whitewood, SD 57793 • 605-269-2247 • Fax 605-269-2499
www.whitewood.govoffice.com • whitewood@rushmore.com

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CITY OF WHITEWOOD

SCHEDULE OF PRIOR FINDINGS DECEMBER 31, 2018

The City of Whitewood respectfully submits the following summary schedule of prior audit findings from the December 31, 2017 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2017 Schedule of Findings

Finding No. 2017-001: Financial Statement Preparation

The City has accepted the risk associated with Finding #2017-001 regarding the preparation of the financial statements.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: As the City has accept the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2018, see Corrective Action Plan.

Finding No. 2017-002: Internal Control over Significant Accounts

The City made efforts to record all year-end entries, but several audit adjustments were made.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The finding is altered based on specific audit adjustments each year, and is repeated in the Schedule of Findings. See Corrective Action Plan.

Finding No. 2017-003: Segregation of Duties

The City has implemented the recommendations as mitigating controls, but continues to have a lack of adequate segregation of duties as a result of the size of the Finance Office and has accepted the risk involved.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the segregation of duties finding, it will be repeated in 2018. See Corrective Action Plan.

Finding No. 2017-004: Certificates of Deposit

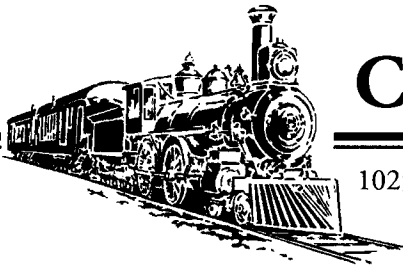
The City is invested in participating and negotiable certificates of deposit which is in violation of South Dakota Codified Law 4-5-6.

Initial Year Report: Originally issued in 2016.

Reasons for Recurrence and Corrective Action Plan: The City transferred all investments to a local branch of an investment advisor in 2019. All investments are in accordance with South Dakota codified law 4-5-6.

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City of Whitewood

1025 Meade St., Whitewood, SD 57793 • 605-269-2247 • Fax 605-269-2499
www.whitewood.govoffice.com • whitewood@rushmore.com

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CITY OF WHITEWOOD

CORRECTIVE ACTION PLAN DECEMBER 31, 2018

Finding No. 2018-001: Financial Statement Preparation

The City is willing to accept the risk associated with this situation. Cory Heckenlaible, Finance Officer, is responsible for this finding.

Finding No. 2018-002: Audit Adjustments

The City Finance Officer, Cory Heckenlaible, will be diligent in the year end closing process to properly adjust balance sheet accounts in 2019.

Finding No. 2018-003: Segregation of Duties

The City personnel and City Council will continue establishing internal controls where feasible in 2019. Cory Heckenlaible, Finance Officer, is responsible for this finding.

Finding No. 2018-004: Certificates of Deposit

The City Council will re-evaluate the investments held with the investment advisor in 2019.