

CITY OF LAKE NORDEN
LAKE NORDEN, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2021
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042

CITY OF LAKE NORDEN
LAKE NORDEN, SOUTH DAKOTA
TABLE OF CONTENTS TO THE FINANCIAL REPORT
FOR THE ONE YEAR ENDING December 31, 2021

FINANCIAL SECTION

1 Independent Auditor's Report

Basic Financial Statements: (Modified Cash Basis of Accounting)

Government-Wide Financial Statements:

5 Statement of Net Position as of December 31, 2021

6 Statement of Activities for the Year Ending December 31, 2021

Fund Financial Statements:

Governmental Funds:

7 Balance Sheet as of December 31, 2021

8 Statement of Receipts, Disbursements, and Changes in Fund Balances
for the Year Ending December 31, 2021

Enterprise Funds:

8 Statement of Net Position as of December 31, 2021

10 Statement of Receipts, Disbursements, and Changes in Net Position
for the Year Ending December 31, 2021

11 Statement of Cash Flow for the Year Ending December 31, 2021

12 Notes to the Financial Statements

SUPPLEMENTARY INFORMATION SECTION

Schedule of Changes in Long-term Liabilities --

25 For the One Year Ending December 31, 2021

Budgetary Comparison Schedule - Budgetary Basis:

27 General Fund for the Year Ending December 31, 2021

28 Notes to Supplementary Information - Budget

Pension Schedules:

29 Schedule of the City's Proportional Share of Net Pension (Asset)/Liability

29 Schedule of the City's Contributions

30 Notes to Supplementary Information - Pension

Component Unit:

31 Statement of Net Position as of June 30, 2021

Statement of Receipts, Disbursements and Changes in Net Position

31 -- for the Year Ending June 30, 2021

GOVERNMENTAL SECTION

32 Report on Compliance and Other Matters and on Internal Control over
Financial Reporting Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

34 Schedule of Prior Audit Findings

34 Schedule of Current Audit Findings and Responses

NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
City of Lake Norden
Lake Norden, South Dakota

INDEPENDENT AUDITOR'S REPORT

Disclaimer, Qualified and Unmodified Opinions:

I have audited the accompanying modified cash basis financial statements of governmental activities, business-type activities, and each major fund of the City of Lake Norden (City), Hamlin County, South Dakota as of and for the year ended December 31, 2021, and the related notes to the financial statements. I was not engaged to audit the modified cash basis financial statements of the discretely presented component unit. These modified cash basis financial statements collectively comprise the City of Lake Norden's basic modified cash basis financial statements as listed in the table of contents.

Summary of Opinions:

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Unmodified
Discretely Presented Component Unit	Disclaimer
General Fund	Qualified
Sales Tax Debt Service Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Solid Waste Fund	Unmodified

Disclaimer of Opinion on the Discretely Presented Component Unit:

Because of the significance of the matter described in the Basis for Disclaimer of Opinion, Qualified Opinions and Unmodified Opinions section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the modified cash basis financial statements of the discretely presented component unit of the City of Lake Norden, Hamlin County, South Dakota. Accordingly, I do not express an opinion on these modified cash basis financial statements.

Qualified Opinion on Governmental Activities and the General Fund:

In my opinion, except for the effects of the matter described in the Basis for Disclaimer of Opinion, Qualified Opinions and Unmodified Opinions section of my report, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of governmental activities and the general fund of the City of Lake Norden, Hamlin County, South Dakota as of December 31, 2021, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in note 1-c.

Unmodified Opinions on Business-type Activities, Sales Tax Debt Service Fund, Water Fund, Sewer Fund, and Solid Waste Fund:

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial statements of business-type activities, sales tax debt service fund, water fund, sewer fund, and solid waste fund of the City of Lake Norden, Hamlin County, South Dakota as of December 31, 2021, and the respective changes in the modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in note 1-c.

Basis for Disclaimer of Opinion, Qualified Opinions and Unmodified Opinions:

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the City of Lake Norden, South Dakota and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified and unmodified audit opinions.

Matter Giving Rise to Disclaimer of Opinion on the Discretely Presented Component Unit:

The modified cash basis financial statements of the Lake Norden Housing & Redevelopment Commission (LN.HRC) have not been audited, and I was not engaged to audit LN.HRC's modified cash basis financial statements as part of my audit of the City of Lake Norden's basic modified cash basis financial statements. LN.HRC's financial activities are included in the City of Lake Norden's basic modified cash basis financial statements as the discretely presented component unit and represents 100% of cash, net position, receipts and disbursements of the City of Lake Norden's discretely presented component unit.

Matter Giving Rise to the Qualified Opinion on Governmental Activities and the General Fund:

General fund total debits was \$65,550 more than total credits. An arbitrary credit of this amount was made to miscellaneous receipts to balance governmental activities and the general fund.

Emphasis of Matter - Basis of Accounting

I draw attention to Note 1-c of these financial statements, which describes the basis of accounting. These financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My qualified and unmodified opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements:

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in note 1-c, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Lake Norden's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements:

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, I:

- > Exercise professional judgment and maintain professional skepticism throughout the audit.
- > Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- > Obtain an understanding of internal control relevant to the audit 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 City of Lake Norden's internal control. Accordingly, no such opinion is expressed.
- > Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- > Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Lake Norden's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Other Matters - Supplementary Information (no opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of lake Norden, South Dakota basic financial statements. The accompanying budgetary comparison schedule (page 27 to 28) and pension schedules (page 29 to 30) are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic modified cash basis of accounting financial statements.

I have applied certain limited procedures to the 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic modified cash basis of accounting financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Supplementary Information: (Opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Lake Norden's financial statements. The schedule of changes in long-term liabilities (page 25) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

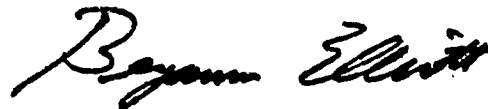
Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the modified cash basis of accounting financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of changes in long-term liabilities is fairly stated, in all material respects, in relation to the modified cash basis of accounting financial statements as a whole.

Other Reporting Required by Government Auditing Standards:

In accordance with *Government Auditing Standards*, I have also issued my report dated June 22, 2023 (page 32) on my consideration of the City of Lake Norden's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Lake Norden's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

June 22, 2023



CITY OF LAKE NORDEN

STATEMENT OF NET POSITION
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2021

	Primary Government			NOT
	-----			AUDITED
	Governmental	Business-		Component
	Activities	Type	Total	Unit
	-----	-----	-----	-----
Assets:				
Cash and cash equivalents	1,414,565	329,990	1,744,555	197,114
Certificates of deposit	47,749		47,749	
Restricted assets:				
Cash and cash equivalents	27,502	554,449	581,951	3,183
	-----	-----	-----	-----
Total assets	1,489,816	884,439	2,374,255	200,297
	=====	=====	=====	=====
Net position:				
Restricted for:				
Debt service:				
Surcharge fees		531,814	531,814	
Debt reduction	25,802		25,802	
Equipment replacement		3,000	3,000	
Deposits	1,700	19,635	21,335	3,183
Unrestricted	1,462,314	329,990	1,792,304	197,114
	-----	-----	-----	-----
Total net position	1,489,816	884,439	2,374,255	200,297
	=====	=====	=====	=====

See accompanying notes.

CITY OF LAKE NORDEN

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2021

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position			NOT AUDITED Component Unit 6-30-2021
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
Governmental activities:								
General government	194,724	3,945	53,518		-137,261		-137,261	
Public safety	169,030				-169,030		-169,030	
Public works	232,674				-232,674		-232,674	
Health and welfare	4,576				-4,576		-4,576	
Culture and recreation	146,650	1,332			-145,318		-145,318	
Economic development	2,211,751				-2,211,751		-2,211,751	
Debt service	23,268				-23,268		-23,268	
Other	21,211				-21,211		-21,211	
Liquor operating agreements	300	5,471			5,171		5,171	
Total governmental activities	3,004,184	10,748	53,518	0	-2,939,918	0	-2,939,918	
Business-type activities:								
Water	1,445,415	688,487				-756,928	-756,928	
Sewer	574,015	201,413		1,146		-371,456	-371,456	
Solid waste	32,694	30,198				-2,496	-2,496	
Total business-type activities	2,052,124	920,098	0	1,146	0	-1,130,880	-1,130,880	
Total primary government	5,056,308	930,846	53,518	1,146	-2,939,918	-1,130,880	-4,070,798	
Component unit activity:								
Lake Norden Housing & Redev Commission	110,959	70,285	71,595	4,106				35,027
General receipts:								
Taxes:								
Property taxes					219,944		219,944	
Sales taxes					911,171		911,171	
State shared receipts					31,897		31,897	
County shared receipts					4,588		4,588	
Interest and dividends received					5,109		5,109	1,229
Rentals and cable franchise					36,224		36,224	
Donations					28,732		28,732	
Miscellaneous receipts					67,362		67,362	
Loan proceeds - water, bank					0	816,056	816,056	
Loan proceeds - sewer, CWSRF-01					0	4,582	4,582	
Loan proceeds - sewer, CWSRF-02					0	463,105	463,105	
Compensation for damaged property					3,368		3,368	
Transfers					-140,000	140,000	0	
Total general receipts and transfers					1,168,395	1,423,743	2,592,138	1,229
Change in net position					-1,771,523	292,863	-1,478,660	36,256
Net position:								
January 1, 2021					3,261,339	591,576	3,852,915	164,041
December 31, 2021					1,489,816	884,439	2,374,255	200,297

See accompanying notes.

CITY OF LAKE NORDEN

BALANCE SHEET -- MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2021

	General Fund	Sales Tax Debt Service Fund	Total
	-----	-----	-----
Assets:			
Cash and cash equivalents	1,414,565		1,414,565
Certificates of deposit	47,749		47,749
Restricted assets:			
Cash and cash equivalents	1,700	25,802	27,502
	-----	-----	-----
	1,464,014	25,802	1,489,816
Total assets	=====	=====	=====
 Fund balances:			
Nonspendable			0
Restricted	1,700	25,802	27,502
Committed			0
Assigned	160,969		160,969
Unassigned	1,301,345		1,301,345
	-----	-----	-----
Total fund balances	1,464,014	25,802	1,489,816*
	=====	=====	=====

* Total net position on government-wide
statement of net position.

See accompanying notes.

CITY OF LAKE NORDEN
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
BALANCE -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS
FOR THE ONE YEAR ENDING DECEMBER 31, 2021

	General	Sales Tax Debt Service	
Receipts:	Fund	Fund	Total
Receipts from local sources:	-----	-----	-----
Taxes:			
Ad valorem taxes	219,944		219,944
General sales and use taxes	885,575	25,596	911,171
Licenses and permits:	3,302		3,302
Intergovernmental receipts:			
Federal grants	53,518		53,518
State shared receipts:			
Bank franchise tax	3,352		3,352
Commercial prorate	1,498		1,498
Liquor tax reversion	3,596		3,596
Motor vehicle licenses (5%)	10,763		10,763
Highway and bridge	12,688		12,688
County shared receipts:			
County road	864		864
Wheel	143		143
Police contract	3,112		3,112
PILOT	469		469
Charges for goods and services:			
Culture and recreation	1,332		1,332
Fines and forfeits:	643		643
Miscellaneous receipts:			
Interest and dividends received	5,109		5,109
Rents and cable franchise	36,224		36,224
Donations	28,732		28,732
Liquor	5,471		5,471
Other	67,362		67,362
Total receipts	1,343,697	25,596	1,369,293
	-----	-----	-----
Disbursements:			
Current:			
General government:			
Mayor and Council	19,579		19,579
Elections	19		19
Financial administration	141,745		141,745
Government buildings and other	33,381		33,381
Public safety:			
Police	115,697		115,697
Fire	1,289		1,289
Code enforcement	2,537		2,537
Public works:			
Highways and streets	225,651		225,651
Rubble site	7,023		7,023
Health and welfare:			
Animal control	900		900
West Nile			0
Clinic building	3,676		3,676
Culture and recreation:			
Recreation	24,527		24,527
Community organizations	4,800		4,800
Parks	55,316		55,316
Community center	37,486		37,486
Museum	2,172		2,172
Conservation and development:			
Economic development	2,211,751		2,211,751
Debt service: principal		8,203	8,203
interest		15,065	15,065
Other	21,211		21,211
Liquor	300		300
Capital outlay	71,856		71,856
Total disbursements	2,980,916	23,268	3,004,184
	-----	-----	-----
Excess of receipts over (under) disbursements	-1,637,219	2,328	-1,634,891
Other financing sources (uses):			
Transfer out	-140,000		-140,000
Compensation for property damage	3,368		3,368
Net change in fund balance	-1,773,851	2,328	-1,771,523*
Fund balance:			
December 31, 2020	3,237,865	23,474	3,261,339
December 31, 2021	1,464,014	25,802	1,489,816

* Total change in net position on government-wide
statement of activities

See accompanying notes.

CITY OF LAKE NORDEN

STATEMENT OF NET POSITION
MODIFIED CASH BASIS
ENTERPRISE FUNDS
AS OF DECEMBER 31, 2021

	Water Fund	Sewer Fund	Solid Waste Fund	Total Enterprise Funds
	-----	-----	-----	-----
Assets:				
Cash and cash equivalents	325,983		4,007	329,990
Restricted cash:				
Cash and cash equivalents	356,695	197,754		554,449
	-----	-----	-----	-----
Total assets	682,678	197,754	4,007	884,439
	=====	=====	=====	=====
Net position:				
Restricted for:				
Debt service:				
Surcharge fees	334,060	197,754		531,814
Equipment replacement	3,000			3,000
Deposits	19,635			19,635
Unrestricted	325,983		4,007	329,990
	-----	-----	-----	-----
Total net position	682,678	197,754	4,007	884,439
	=====	=====	=====	=====

See accompanying notes.

CITY OF LAKE NORDEN

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN NET POSITION -- ENTERPRISE FUNDS
 MODIFIED CASH BASIS
 FOR THE ONE YEAR ENDING DECEMBER 31, 2021

	Water Fund	Sewer Fund	Solid Waste Fund	2021 Total
	-----	-----	-----	-----
Operating receipts:				
Charges for goods and services	688,487	201,413	30,198	920,098
	-----	-----	-----	-----
Total operating receipts	688,487	201,413	30,198	920,098
	-----	-----	-----	-----
Operating disbursements:				
Personal services	68,987	11,443		80,430
Other current services	217,874	93,247	1,200	312,321
Cost of goods sold			31,494	31,494
Capital improvements	139,162	418,833		557,995
	-----	-----	-----	-----
Total operating disbursements	426,023	523,523	32,694	982,240
	-----	-----	-----	-----
Net operating receipts (disbursemen	262,464	-322,110	-2,496	-62,142
Nonoperating receipts (disbursements):				
Bank loan proceeds	816,056			816,056
SRF loan proceeds		467,687		467,687
Capital grant		1,146		1,146
Debt service - principal	-934,798	-21,286		-956,084
- interest	-60,772	-22,496		-83,268
- issue cost	-23,822	-6,710		-30,532
	-----	-----	-----	-----
Total nonoperating receipts (disbur	-203,336	418,341	0	215,005
Income (loss) before transfers capital contributions	59,128	96,231	-2,496	152,863
Transfer in	140,000			140,000
	-----	-----	-----	-----
Change in net position	199,128	96,231	-2,496	292,863
Net position:				
December 31, 2020	483,550	101,523	6,503	591,576
	-----	-----	-----	-----
December 31, 2021	682,678	197,754	4,007	884,439
	=====	=====	=====	=====

See accompanying notes.

CITY OF LAKE NORDEN

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS

ENTERPRISE FUNDS

FOR THE ONE YEAR ENDING DECEMBER 31, 2021

	Water Fund	Sewer Fund	Solid Waste Fund	2021 Total
Cash flows from:	-----	-----	-----	-----
Operating activities:				
Receipts from customers	688,487	201,413	30,198	920,098
Cash paid to employees	-68,987	-11,443		-80,430
Cash paid to suppliers	-217,874	-93,247	-32,694	-343,815
Net cash provided (used)	-----	-----	-----	-----
by operating activities	401,626	96,723	-2,496	495,853
Noncapital financing activities:				
Transfer in	140,000			140,000
Capital financing activities:				
State grant - CWFCP		1,146		1,146
Bank loan proceeds	816,056			816,056
SRF loan proceeds		467,687		467,687
Cash paid for:				
Water improvements	-139,162			-139,162
Sewer improvements		-418,833		-418,833
Debt payments - principal	-934,798	-21,286		-956,084
- interest	-60,772	-22,496		-83,268
- issue cost	-23,822	-6,710		-30,532
Investing activities:				
Interest received				0
Net increase (decrease) in	-----	-----	-----	-----
cash and cash equivalents	199,128	96,231	-2,496	292,863
Cash and cash equivalents:				
December 31, 2020	483,550	101,523	6,503	591,576
December 31, 2021	682,678	197,754	4,007	884,439
	=====	=====	=====	=====
Reconciliation of operating				
income (loss) to net cash				
provided (used) by operating				
activities:				
Operating income (loss)	262,464	-322,110	-2,496	-62,142
Add back capital outlay	139,162	418,833		557,995
Net cash provided (used)	-----	-----	-----	-----
by operating activities	401,626	96,723	-2,496	495,853
	=====	=====	=====	=====

Noncash investing, capital, and
financing activities: None

See accompanying notes.

CITY OF LAKE NORDEN
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity:

The funds included in this report are controlled by or dependent upon the City of Lake Norden's (City) governing board.

At December 31, 2021 City officials are:

Governing Board:	Finance Officer:
Jason Aho, Mayor	Kendra Rickard
Cameron Larson, President	Attorney:
Janet Andrews	Boyd Law Firm
Brian Jacobsen	
John Layman	
Dorene Lemme	
Kim St. John	

The City's financial reporting entity is composed of the following:

Primary government: City of Lake Norden
Component unit: Lake Norden Housing & Redevelopment Commission

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Lake Norden consists of (1) the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the Lake Norden Housing and Redevelopment Commission (LN.HRC) is a component unit of the City of Lake Norden and represents 100% of the balances and activity of the discretely presented component unit column of these financial statements.

LNHRC is a Housing and Redevelopment Commission, established under SDCL 11-7-7 to provide housing through the operation of a rental housing complex. Financial information about LN.HRC is available at Lake Norden's City Hall.

b. Basis of Presentation:

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds (if any). 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 good and services.

The Statement of Net Position reports all cash assets. Net position is displayed in two components: restricted (distinguishing between major categories of restrictions) and unrestricted.

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

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its cash, net position, receipts and disbursements. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

- a. Total cash, receipts or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (cash, receipts or disbursements) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The City has elected to classify all of its funds as major funds.

Funds of the City are described below within their respective fund type:

Governmental Funds

General Fund - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always 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. The City has the following debt service fund:

Sales Tax Debt Service Fund - A fund allowed by law to account for the accumulation of sales tax to use for payment of principal and interest on the City's 2010 sales tax revenue bond. The sales tax debt service fund is a major fund.

Enterprise Funds (Business-Type)

Enterprise Funds - Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Lake Norden. The water fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the own of Lake Norden. The sewer fund is a major fund.

Solid Waste Fund - A fund allowed by SDCL 9-32-11 and SDCL 9-34A-6 to provide garbage services to customers within the City of Lake Norden. The solid waste fund is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

The City of Lake Norden has no fiduciary funds.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses (disbursements) are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The City's basis of accounting is the modified cash basis of accounting, which is a basis of accounting other than US-GAAP. Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of net position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are certificates of deposit (if any) whose maturity when purchased is more than 90 days.

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

If the City applied US-GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise funds and fiduciary funds (if any) would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Cash and Cash Equivalents:

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

The City's certificates of deposit have a maturity of more than three months when purchased and are not considered a cash equivalent.

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Program Receipts and General Receipts:

Program Receipts:

In the government-wide Statement of Activities, reported program receipts derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program receipts are classified in three categories, as follows:

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

3. Program-specific capital grants and contribution - These arise from mandatory and voluntary non-exchange transactions with other government, organization, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

General Receipts:

General receipts include all receipts not specifically earmarked for a specific program. General receipts include all taxes, interest received, unrestricted receipts from federal, state, or county governments, and miscellaneous receipts not related to a program. These receipts are not restricted and can be used for the regular operation of the City.

g. Enterprise Fund Receipt Classifications:

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water, sewer, and solid waste services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, if any, such as grants, operating subsidies, interest received, and transfers in, result from nonexchange transactions.

h. Equity Classifications:

Government-wide financial Statements:

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

1. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position - All other net position that does not meet the definition of "restricted net position".

Fund Financial Statements:

Governmental fund equity is classified as "Fund Balance", and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (if any) is reported as "Custodial Net Position".

i. Application of Net Position:

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

j. Fund Balance Classification Policies and Procedures:

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

- * Nonspendable - includes fund cash balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- * Restricted - includes fund cash 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 cash balance amounts that are constrained for specific purposes that are internally imposed (or modified or rescinded) by the government through formal action at the highest level of decision making authority and does not lapse at year-end.
- * Assigned - includes fund cash balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund cash balance may be assigned by the Finance Officer.
- * Unassigned - includes positive fund cash balance within the general fund which has not been classified within the above categories and negative fund balance amounts in other governmental funds.

The City of Lake Norden fund cash balance classifications are made up of:

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	Bond guarantee	Covenants	25,802
	Community Center deposits	Contracts	1,700
Committed	None		0
Assigned	Next year's budget	Finance officer	160,969
Unassigned	General fund		1,301,345

			1,489,816

The City uses "restricted" and "committed" amounts first when 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 cash balance policy.

The City has no special revenue funds.

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. The following are overdrafts of departmental disbursement compared to appropriations for the general fund.

2021: General fund - Miscellaneous disbursements: 18,211

This is not considered significant violation of a departmental expenditure compared to appropriations. In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation.

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

Except for restricted cash held by 3rd parties and bank certificates of deposit purchased for an individual fund, the City follows the practice of aggregating deposits of its 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 deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is the add-on type.

Actual bank balances at December 31, 2021 were as follows: Insured \$500,000, Collateralized ** \$1,950,572, for a total of \$2,450,572.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits at December 31, 2021 was \$2,374,255 held as follows.

First Premier Bank, (Lake Norden, SD):	
Checking and savings	2,326,256
Certificates of deposit	47,749

	2,374,005
Petty cash	250

	<u>2,374,255</u>

Certificates of deposit (if any), with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

4. INVESTMENTS AND RELATED RISKS

In general, SDCL 4-5-6 permits City money 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) or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires 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.

During 2021 the City had no investments.

Investment 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 Risk (Investments) - The risk that, in the event of a default by the counterparty to a transaction, the City will not be able to recover the value of an investment or collateral securities held by the counterparty. During 2021 the City had no investment and was not exposed to custodial risk for investments.

Custodial Risk (Deposits) - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2021, the City's deposits in financial institutions were not exposed to custodial deposit risks.

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. The amount of investment in an institution is shown above.

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 is to credit all income from deposits and investments to the general fund except for certificates of deposit.

5. RESTRICTED NET POSITION

The following table shows the December 31, 2021 net position restricted for specific purposes as shown on the statement of net position

Purpose:	Restricted By:	Governmental	Business-Type
Debt Service	Covenants	25,802	534,814
Deposits	Contracts	1,700	19,635
		-----	-----
Total Restricted Net Position		27,502	554,449

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the fiscal year December 31, 2021 is found on page 25. Except as noted below, the City has no: (a) unused lines-of-credit, (b) short-term debt, (c) debt extinguishments, defeasances, refundings or troubled debt restructuring, (d) special assessment debt, (e) conduit debt, (f) derivatives or hedging of variable rate debt, (g) debt related to claims and judgments, or (h) other than the collateral specified, terms in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences or (3) subjective acceleration clauses.

7. LOAN AGREEMENTS AND SURCHARGES

Because of statutory debt limitations, the City entered into an agreement with the South Dakota Department of Environment and Natural Resources, by Ordinance #339, to establish a minimum sewer surcharge of \$16.80 per month to cover the City's payments on a 923,366 obligated amount Clean Water Borrower Bond (2017). The surcharge cash account has a December 31, 2021 balance of \$164,022. See page 25.

Because of statutory debt limitations, the City entered into an agreement with the South Dakota Department of Environment and Natural Resources, by Ordinance #347, to establish a minimum water surcharge of \$22,446 per quarter to the user, Agropur, Inc., to cover the City's payments on a \$1,477,000 Drinking Water Borrower Bond (2018). The surcharge cash account has a December 31, 2021 balance of \$136,884. See page 25.

Because of statutory debt limitations, the City entered into an agreement with the South Dakota Department of Environment and Natural Resources, by Ordinance #357, to establish a minimum water surcharge of \$7,234.58 per month to the user, Agropur, Inc., to cover the City's payments on a \$1,345,000 Drinking Water Borrower Bond (2020). The surcharge cash account has a December 31, 2021 balance of \$86,618. See page 25.

Because of statutory debt limitations, the City entered into an agreement with the South Dakota Board of Natural Resources by Resolution 13/09/2020 to establish a minimum sewer surcharge of \$10.70 per month to the user of the sewer system, to cover the City's payments on a \$463,105 Clean Water Borrower Bond (2020). The surcharge cash account has a December 31, 2021 balance of \$33,732. See page 25.

Because of statutory debt limitations, the City entered into an agreement with First Premier Bank, by Resolution 20/12/2020, to establish a minimum water surcharge sufficient to meet the 110% of the debt service requirement of the \$816,056 bond. At December 31, 2021 cash of \$110,558 has been restricted to comply with this requirement. See page 25.

8. INTERFUND TRANSFERS

In 2021 the City transferred \$140,000 from the general fund to the water fund for operations and capital improvements.

9. COPIER LEASE

In April 2019 the City entered into a copier lease at \$110.76 per month for 39 months with a fair market value purchase option.

10. PENSION PLAN

Summary of Significant Accounting Policies:

As mentioned in note 1c above, these financial statements, both government-wide and fund financial statements, are presented on a modified cash basis of accounting rather than an accrual/modified accrual basis of accounting. Consequently, these financial statements do not measure the net pension (assets)/liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense (revenue), and information about the fiduciary net position of the South Dakota Retirement System (SDRS).

Plan Description:

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

Benefits Provided:

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

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

Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

Members that were hired on or 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 equal to or greater 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 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 equal to or greater than the accrued liabilities.

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

Contributions:

Per SDCL 3-12, contributions requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the calendar years ending December 31, 2021, 2020, and 2019 were \$12,827, \$11,593 and \$11,692 respectively (employer's share) equal to the required contribution each year.

Pension (Assets)/Liabilities:

At June 30, 2021 SDRS is 105.53% funded and accordingly has net pension (asset). The proportionate shares of the components of the net pension (asset) of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2021 and reported by the City as of December 31, 2021 are as follows:

Proportionate share of total pension liability	\$ 1,344,622
Less: Proportionate share of net position restricted for pension benefits	(1,418,884)

Proportionate share of net pension (asset)/liability	\$ (74,262)
	=====

The net pension liability (asset) was measured as of June 30, 2021 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contribution to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the City's proportion was .000096970 which is an increase of .000005004 over its proportion measured as of June 30, 2020.

Actuarial Assumptions:

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.25% and real returns of 4.25%.
Future COLAs	2.25%

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

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investments

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 (ie: 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 weighting 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, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	0.9%

	100.0%	

Discount Rate:

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

Sensitivity of (Asset)/Liability to Changes in the Discount Rate:

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

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
City's proportionate share of the net pension (asset)/liability	\$120,249	\$(74,262)	\$(232,161)

Pension Plan Fiduciary Net Position:

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

11. PROPERTY TAX

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the City's taxes and remits them to the City. Because the City is on the modified cash basis of accounting, all property taxes received in cash are considered revenue for the period in which it was collected.

The City is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the City: a) general fund \$27.00; b) bond redemption funds: Amts required by Bond Agreements; c) judgment fund (upon a judgment being made) \$10.00. State statute allows the tax rates to be raised by special election of the voters.

12. MAJOR CUSTOMER

In 2021 approximately 75% of water fund receipts and 15% of sewer fund receipts were received from Agropur, Inc.

13. INSURANCE

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 one year ending December 31, 2021 the City managed its risks as follows:

Employee Health Insurance:

The City purchased health insurance for its employees from a commercial carrier. 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 coverage during the past three years.

Liability Insurance:

The City purchased liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial carrier. 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 coverage during the past three years.

Worker's Compensation:

The City joined the South Dakota Municipal League Workers' Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities.

The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims.

The City pays an annual premium, to provide worker's compensation coverage 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 over the past three years.

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. No unemployment payments were paid in 2021 and none are expected to be paid in 2022.

14. TAX ABATEMENTS

As of December 31, 2021 the City did not provide any tax abatement incentives through a Tax Increment Financing District Project (of which the City has none) or through other agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

15. LITIGATION

At December 31, 2021 the City was engaged in active litigation. As of the date of this report a potential settlement has not been approved by a judge. The City has paid a \$5,000 insurance deductible related to this matter and any additional settlement is expected to be covered by insurance and, consequently, is not expected to have a material effect on the City's financial statements.

16. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City has a rubble site. It does not have a landfill with any associated closure costs liabilities. The City does not offer any "Other Post Employment Benefits".

A part owner of an insurance agency became a member of the Lake Norden City Council in May 2015. The City has used this insurance agency for many years and in 2021 purchased \$21,364 of insurance for commercial property and liability coverage from this agency. The member abstains from voting on all matters related to this insurance coverage.

In June 2021 the City remitted \$2,078,167 of sale tax receipts to Agropur. The City expects to purchase a maintenance building for approximately \$300,000. The City expects to purchase 103 acres of land east of the City for \$1.3 million. The City expects to construct a new water tower for \$2.5 million. The City expects to add a new lift station and water lines for \$1.7 million. In May 2023 the City's Fire Hall burned which housed fire, police, and ambulance equipment. The City received an insurance settlement for \$369,741 on the building. There is no settlement yet on the contents. The City is in the early stage of rebuilding the fire hall and is applying for up to \$2.5 million in grant funding.

CITY OF LAKE NORDEN
NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
CHANGES IN LONG-TERM LIABILITIES
FOR THE ONE YEAR ENDING DECEMBER 31, 2021

				Governmental Activities	Business-Type Activities	Principal Due in
	Beginning 12-31-20	2021 Additions	2021 (Deletions)	Ending 12-31-21	Ending 12-31-21	2022
GOVERNMENTAL - DIRECT BORROWING						
2010 Sales Tax Revenue Bond, Series 2010:						
Build America Bond - Direct Pay						
Original amount: \$481,000						
Maturing in 2049, interest at 3.75%						
Monthly payments of \$1,939						
Paid by the sales tax fund	405,475		-8,203	397,272		8,370
Totals	405,475	0	-8,203	397,272		8,370
BUSINESS-TYPE - DIRECT BORROWING						
2004 Water Revenue Bonds:						
Original face amount: \$660,000						
Bond holder: USDA - Rural Development						
Maturing in 2034, interest at 4.50%						
Payments of \$3,597 per month						
Purpose: Water improvement projects						
Paid by the water fund	427,195		-427,195		0	0
2004 Water Revenue Bonds:						
Original face amount: \$237,600						
Bond holder: USDA - Rural Development						
Maturing in 2026, interest at 4.50%						
Payments of \$1,679 per month						
Purpose: Water improvement projects						
Paid by the water fund	96,388		-96,388		0	0
2013 REED Loan:						
Original face amount: \$441,760						
Lender: Rural Electric Economic Development, Inc.						
(a non-profit corporation)						
Maturing on July 15, 2033, interest at 4.15%						
Purpose: Water treatment plant improvements						
Paid by the water fund	267,626		-267,626		0	0
2017 Clean Water Borrower Bond (CW-01):						
Obligated amount: \$923,366						
Lender: State Revolving Funds						
Maturing on 2-15-2050, interest and fees at 2.50%						
Purpose: wastewater relining project						
Supported by surcharge						
Paid by the sewer fund	903,214	4,582	-21,286		886,510	21,687
2018 Drinking Water Revenue Borrower Bond (DW-01):						
Original face amount: \$1,477,000						
Lender: State Revolving Funds						
Maturing on 2-15-2040, interest and fees at 2.00%						
Purpose: drinking water improvements						
Supported by surcharge						
Paid by the water fund	1,461,939		-61,001		1,400,938	62,230
2020 Drinking Water Revenue Borrower Bond (DW-02):						
Original face amount: \$1,345,000						
Lender: State Revolving Funds						
Maturing in 2041, interest and fees at 2.50% (est)						
Purpose: drinking water improvements						
Supported by surcharge						
Paid by the water fund	736,033		-7,805		728,228	31,537
2020 Clean Water Project Borrower Bond (CW-02):						
Original face amount: \$463,105						
Lender: State Revolving Funds						
Maturing 11-15-2053, interest and fees at 2.125%						
Purpose: sewer improvements, lift station						
Supported by surcharge						
Paid by the sewer fund	0	463,105			463,105	5,814
2021 Water System (Surcharge) Revenue Bond:						
Original face amount: \$816,056						
Lender: Local bank						
Maturing 12-15-2030, interest and fees at 2.25%						
Purpose: Refinance 3 loans						
Supported by surcharge						
Paid by the water fund	0	816,056	-74,783		741,273	75,164
Totals	3,892,395	1,283,743	-956,084		4,220,054	196,432

CITY OF LAKE NORDEN
NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE (continued)
CHANGES IN LONG-TERM LIABILITIES
FOR THE ONE YEAR ENDING DECEMBER 31, 2021

Payment Schedules:	Total Payment	Principal	Interest	Balance
-----	-----	-----	-----	-----
2010 Sales Tax Revenue Bond, Series 2010:				
2022	23,268	8,370	14,898	388,902
2023	23,268	8,684	14,584	380,218
2024	23,268	9,010	14,258	371,208
2025	23,268	9,348	13,920	361,860
2026	23,268	9,698	13,570	352,162
2027-2031	116,340	54,227	62,113	297,935
2032-2036	116,340	65,186	51,154	232,749
2037-2041	116,340	78,361	37,979	154,388
2042-2046	116,340	94,197	22,143	60,191
2047-2049	65,415	60,191	5,224	0
	-----	-----	-----	
Totals	647,115	397,272	249,843	
	=====	=====	=====	
2017 Clean Water Borrower Bonds:				
2022	43,850	21,687	22,163	864,823
2023	43,850	22,229	21,621	842,594
2024	43,850	22,785	21,065	819,809
2025	43,850	23,355	20,495	796,454
2026	43,850	23,939	19,911	772,515
2026-2030	219,250	128,975	90,275	643,540
2031-2035	219,250	145,923	73,327	497,617
2036-2040	219,250	165,098	54,152	332,519
2041-2045	219,250	186,794	32,456	145,725
2046-2049	154,165	145,725	8,440	0
	-----	-----	-----	
Totals	1,250,415	886,510	363,905	
	=====	=====	=====	
2018 Drinking Water Revenue Borrower Bond:				
2022	89,784	62,230	27,554	1,338,708
2023	89,784	63,484	26,300	1,275,224
2024	89,784	64,763	25,021	1,210,461
2025	89,784	66,069	23,715	1,144,392
2026	89,784	67,400	22,384	1,076,992
2027-2031	448,920	357,926	90,994	719,066
2032-2036	448,920	395,470	53,450	323,596
2037-2040	336,691	323,596	13,095	0
	-----	-----	-----	
Totals	1,683,451	1,400,938	282,513	
	=====	=====	=====	
2018 Drinking Water Revenue Borrower Bond:				
2022	43,179	31,537	11,642	696,691
2023	43,179	32,053	11,126	664,638
2024	43,179	32,577	10,602	632,061
2025	43,180	33,109	10,071	598,952
2026	43,179	33,651	9,528	565,301
2027-2031	215,897	176,688	39,209	388,613
2032-2036	215,897	191,612	24,285	197,001
2037-2041	205,102	197,001	8,101	0
	-----	-----	-----	
Totals	852,792	728,228	124,564	
	=====	=====	=====	
2020 Clean Water Project Borrower Bond:				
2022		-21,829		484,934
2022	20,868	5,814	15,054	479,120
2023	21,902	11,721	10,181	467,399
2024	21,902	11,970	9,932	455,429
2025	21,902	12,224	9,678	443,205
2026	21,902	12,484	9,418	430,721
2027-2031	109,511	66,514	42,997	364,207
2032-2036	109,511	73,888	35,623	290,319
2037-2041	109,511	82,079	27,432	208,240
2042-2046	109,511	91,180	18,331	117,060
2047-2051	109,511	101,287	8,224	15,773
2052	16,108	15,773	335	0
	-----	-----	-----	
Totals	672,139	463,105	187,205	
	=====	=====	=====	
2021 Water System (Surcharge) Revenue Bond:				
2022	91,417	75,164	16,253	666,109
2023	91,417	76,864	14,553	589,245
2024	91,417	78,603	12,814	510,642
2025	91,417	80,382	11,035	430,260
2026	91,416	82,201	9,215	348,059
2027-2030	365,897	348,059	17,838	0
	-----	-----	-----	
Totals	822,981	741,273	81,708	
	=====	=====	=====	

CITY OF LAKE NORDEN
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
FOR THE YEAR ENDING DECEMBER 31, 2021

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	220,200			219,944	-256
Sales and use tax	694,404			885,575	191,171
Amusement tax	48			48	-48
Licenses and permits:	1,410			3,302	1,892
Intergovernmental receipts:					
Federal grants			442	53,518	53,076
State shared receipts:					
Bank franchise tax	1,703			3,352	1,649
Commercial prorate	1,309			1,498	189
Liquor tax reversion	3,147			3,596	449
Motor vehicle licenses (5%)	9,500			10,763	1,263
Highway and bridge	12,356			12,688	332
County shared receipts:	1,001			4,588	3,587
Other intergovernmental rece	1,126			1,126	-1,126
Charges for goods and services:					
Mowing	100			100	-100
Culture and recreation	5,723			1,332	-4,391
Fines and forfeits:	2,200			643	-1,557
Miscellaneous receipts:					
Interest received	1,180			5,109	3,929
Rents and cable franchise	29,602			36,224	6,622
Donations	8,100			28,732	20,632
Liquor	6,982			5,471	-1,511
Other	7,839			67,362	59,523
Total receipts	1,007,930	0	442	1,008,372	335,325
Disbursements:					
General government:					
Mayor and Council	20,822			19,579	1,243
Contingency	50,397			50,397	50,397
Amount transferred			0		0
Elections	755		755	19	736
Financial administration	90,282		57,018	141,745	5,555
Government buildings	61,733			61,733	33,381
Public safety:					
Police	154,284		15,442	165,204	4,522
Fire	2,040			2,040	1,289
Protective inspections	1,500		1,038	2,537	1
Public works:					
Highways and streets	478,773		15,838	494,611	225,651
Rubble site	9,483			9,483	7,023
Health and welfare:					
Animal control and West Nile	3,475			900	2,575
Clinic/ambulance	5,840			5,840	3,676
Culture and recreation:					
Recreation	25,111			25,111	24,527
Community organizations	4,820			4,820	4,800
Parks	72,890		135,000	207,890	72,665
Community Center	30,668		12,052	42,720	42,486
Museum	2,832			2,832	2,172
Conservation and development:					
Economic development	30,200		2,181,708	2,211,908	2,211,751
Miscellaneous:	3,000			3,000	21,211
Liquor:	300			300	300
Total disbursements	1,049,205	0	2,418,096	3,467,301	2,980,916
Excess of receipts over (under) disbursements	-41,275	0	-2,417,654	-2,458,929	-1,637,219
Other financing sources (uses):					
Transfer out			-140,000	-140,000	-140,000
Compensation for property damage				0	3,368
Net change in fund balance	-41,275	0	-2,557,654	-2,598,929	-1,773,851
Fund balance:					
January 1, 2021	3,237,865			3,237,865	3,237,865
December 31, 2021	3,196,590	0	-2,557,654	638,936	1,464,014

CITY OF LAKE NORDEN

NOTES TO SUPPLEMENTARY INFORMATION - BUDGET

SCHEDULE OF BUDGETARY COMPARISONS FOR THE
GENERAL FUND FOR THE ONE YEAR ENDING DECEMBER 31, 2021

1. BUDGETS AND BUDGETARY ACCOUNTING

The City of Lake Norden (City) follows these procedures in establishing the budgetary data reflected in the budgetary supplementary information:

- a. 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.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2021 there were supplemental appropriations to the general fund. See page 27.
- e. Formal budgetary integration is employed as a management control device for the general fund.
- f. The budget for the general fund is not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting, and the adoption of the all budgets, is on a modified cash basis of accounting.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

The financial statements prepared in conformity with US-GAAP (within the context of the modified cash basis of accounting) present capital outlay disbursement information as a separate category of disbursements. Under the budgetary basis of accounting, capital outlay disbursements are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital outlay disbursement in the governmental funds statement of receipts, disbursements and changes in fund cash balance. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as a disbursement in the public works function of general fund, along with all other current public works disbursements.

CITY OF LAKE NORDEN
FOR THE EIGHT YEARS ENDING DECEMBER 31, 2021

SUPPLEMENTARY INFORMATION

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

SDRS Measurement Date Year Ended (1)	City's Pension Allocation Percentage	City's Proportionate Share of Net Pension (Asset) Liability	City's Covered Employee Payroll for a June 30th Year End	City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of Pension Liability
June 30, 2021	0.0096970%	-74,262	200,959	(36.96%)	105.53%
June 30, 2020	0.0091966%	-399	182,380	(00.22%)	100.04%
June 30, 2019	0.0090994%	-964	175,083	(00.55%)	100.09%
June 30, 2018	0.0079810%	-186	154,102	(00.12%)	100.02%
June 30, 2017	0.0079339%	-720	147,439	(00.49%)	100.10%
June 30, 2016	0.0068265%	23,059	119,448	19.31%	96.89%
June 30, 2015	0.0052071%	-22,085	95,067	(23.23%)	104.10%
June 30, 2014	0.0055839%	-40,230	97,650	(41.20%)	107.30%

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

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF LAKE NORDEN
FOR THE EIGHT YEARS ENDING DECEMBER 31, 2021

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS
TO THE SOUTH DAKOTA RETIREMENT SYSTEM

City's Year Ended	Contractually Required Contribution	Contributions Related to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Employee Payroll for its Calendar Year End	Contributions as a Percentage of Covered Employee Payroll
December 31, 2021	12,826.70	12,826.70	0	195,365	6.57%
December 31, 2020	11,592.87	11,592.87	0	174,573	6.64%
December 31, 2019	11,691.81	11,691.81	0	176,563	6.63%
December 31, 2018	9,481.52	9,481.52	0	146,833	6.46%
December 31, 2017	9,691.52	9,691.52	0	147,742	6.56%
December 31, 2016	9,193.56	9,193.56	0	140,920	6.52%
December 31, 2015	5,783.93	5,783.93	0	96,399	6.00%
December 31, 2014	5,921.16	5,921.16	0	98,686	6.00%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF LAKE NORDEN

NOTES TO SUPPLEMENTARY INFORMATION - PENSION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION (ASSET)/LIABILITY AND
SCHEDULE OF PENSION CONTRIBUTIONS FOR THE ONE YEAR ENDING DECEMBER 31, 2021

Changes of Prior Valuation:

The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and one plan provision change are reflected and described below.

The details of the changes since the last valuation are as follows:

Benefit Provision Changes:

Legislation enacted in 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

Actuarial Assumption Changes:

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. The condition existed as of June 30, 2020 and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 actuarial valuation, future COLAs were assumed to equal the restricted maximum of 1.41%. For this June 30, 2021 actuarial valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

The change in the COLA assumption increased the actuarial accrued liability by \$1,135 million, or 8.9% of the actuarial accrued liability based on the 1.41% restricted maximum COLA.

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

Actuarial Method Changes:

No changes in actuarial methods were made since the prior valuation.

CITY OF LAKE NORDEN

COMPONENT UNIT

STATEMENT OF NET POSITION - MODIFIED CASH BASIS

AS OF JUNE 30, 2021

NOT AUDITED

Lake Norden
Housing &
Redevelopment
Commission
6-30-2021

Cash assets:

Cash	-1,193
Investments	198,307
Cash - restricted	3,183

	200,297
	=====

Net position:

Restricted - deposits	3,183
Unrestricted	197,114

Total net position	200,297
	=====

COMPONENT UNIT

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE ONE YEAR ENDING OF JUNE 30, 2021

Lake Norden
Housing &
Redevelopment
Commission
6-30-2021

Receipts:

Tenant rents, other receipts	70,285

Total receipts	70,285

Disbursements:

Administrative	21,844
Tenant services	
Utilities	39,144
Maintenance	28,933
Insurance and taxes	8,659
Capital purchases	10,850
Other	1,529

Total disbursements	110,959

Excess of receipts over
(under) disbursements

-40,674

Other financing sources (uses):

Interest received	1,229
Housing rent subsidy (HUD)	71,595
Capital grants (HUD)	4,106

Change in net position	36,256

Net position:

June 30, 2020	164,041

June 30, 2021	200,297
	=====

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

Governing Board
City of Lake Norden
Lake Norden, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of governmental activities, business-type activities, the discretely presented component unit, and each major fund of the City of Lake Norden (City), Hamlin County, South Dakota, as of and for the one year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Lake Norden's basic modified cash basis financial statements and have issued my report thereon dated June 22, 2023 which was unmodified except for a disclaimer of opinion on the discretely presented component unit and qualified opinions on governmental activities and the general fund.

Report on Internal Control Over Financial Reporting:

In planning and performing my engagement to audit of the financial statements, I considered the City of Lake Norden's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Lake Norden's internal control.

A *deficiency in internal control* exist 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 Town's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency*, is a deficiency, or 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my engagement to audit I not did identify any deficiency in internal control that I consider to be a material weakness. However, material weaknesses or significant deficiencies may exist that were not identified.

I did identify deficiencies in internal control that I consider to be a significant deficiencies and are described in the accompanying schedule of current audit findings and responses as items 2021-01 and 2021-02.

City of Lake Norden
Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters -- Page Two

Government Auditing Standards require the auditor to perform limited procedures on the City's responses to the internal control over financial reporting findings identified in my audit described in the accompanying schedule of findings and responses. The City's responses were not subject to the other auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the responses.

I did note minor matters involving internal control over financial reporting that I reported to the governing body and management of the City of Lake Norden in a separate Letter of Comments dated June 22, 2023.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the City of Lake Norden's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.


I did note minor matters involving compliance that I reported to the governing body and management of the City of Lake Norden in a separate Letter of Comments dated June 22, 2023.

Purpose of this Report:

The purpose of this report is solely to describe the scope of my testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the City of Lake Norden's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lake Norden's internal control over financial reporting and compliance. Accordingly this communication is not suitable for any other purpose.

However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



June 22, 2023

CITY OF LAKE NORDEN
SCHEDULES OF FINDINGS AND RESPONSES
DECEMBER 31, 2021

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit finding:

The prior audit report did not have any federal compliance audit findings.

Prior Other Audit Findings:

The prior audit report did not have any other audit findings.

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Part I - Summary of the Audit:

Financial Statements

Type of auditor's report issued:

Qualified - Governmental Activities
Unmodified - Business-Type Activities
Disclaimer - Discretely Presented Component Unit
Qualified - General Fund
Unmodified - Sales Tax Debt Service Fund
Unmodified - Water Fund
Unmodified - Sewer Fund
Unmodified - Solid Waste Fund

Noncompliance noted:

None reported

Internal control over financial reporting:

* Material weakness(es) identified?

None reported

* Significant deficiency(ies) identified
that are not considered to be material
weaknesses?

Items: 2021-01 and 2021-02

Part II - Findings Relating to the Financial Statements

Finding 2021-01: Lack of Proper Segregation of Duties and Internal Controls
(internal control)

Criteria:

Management of a municipality is responsible for establishing and maintaining an internal control structure to provide management and the taxpayers with reasonable assurance: 1) that assets are safeguarded against loss from unauthorized use or disposition, 2) that transactions are executed in accordance with management's authorization, and 3) that transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

A key element of an effective internal control structure is the separation of duties so one person isn't responsible of all aspects of a transaction.

Condition:

The finance officer processes and records most transactions from beginning to end. The finance officer receives money, issues receipts, records receipts, posts receipts in the accounting records, prepared bank deposits and prepares annual reports. As a result, an inadequate segregation of duties exist.

Effect:

Inadequate segregation of duties can lead to the misappropriation of money.

Recommendation:

I recommend the City's management be cognizant of this lack of segregation of duties and attempt to provide compensating internal controls whenever and wherever possible and practical.

Response:

This comment is a result of the size of the City, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City has determined it is not cost beneficial to employ additional personnel to adequately segregate duties. The City of Lake Norden is aware of this problem and is attempting to provide compensating controls whenever and wherever possible and practical. However, this lack of segregation of duties is expected to continue to exist.

Finding 2021-02: Preparation of Financial Statements
(internal control)

Condition:

As the auditor, I was requested to draft these financial statements and accompanying notes to the financial statements.

Criteria:

A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements and the preparation of the financial statements.

Cause of the Condition:

The City has elected not to have an internal control system designed to provide for the preparation of the financial statement being audited.

Effect:

This control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

Recommendation:

This situation is not unusual for an entity of this City's size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response:

Due to cost constraints, the City has decided to continue having the auditor draft the financial statements and accompanying notes to the financial statements.