



Financial Statements
December 31, 2021
City of Clear Lake

Mayor Gary Eide

Governing Board John Keimig, President
Harry Mewherter, Vice-President
Carey Holt
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Finance Officer Christa Bittner

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Independent Auditor's Report

The City Council
City of Clear Lake
Clear Lake, South Dakota

Report on the Audit of the Financial Statements

Adverse and Unmodified Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Clear Lake (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Adverse Opinion on Aggregate Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in the Basis for Adverse and Unmodified Opinions section of our report, the accompanying modified cash basis financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component unit of the City of Clear Lake, as of December 31, 2021, or the changes in financial position – modified cash basis for the year then ended in accordance with the modified cash basis described in Note 1.

Unmodified Opinions on Governmental Activities, the Business-Type Activities, and Each Major Fund

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Clear Lake as of December 31, 2021, and the respective changes in modified cash basis financial position, and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis described in Note 1.

Basis for Adverse and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are required to be independent of the City of Clear Lake, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matters Giving Rise to Adverse Opinion on the Aggregate Discretely Presented Component Unit

The financial statements do not include financial data for the City of Clear Lake's legally separate component unit. Accounting principles applicable to the City's modified cash basis of accounting require the financial data for the component unit to be reported with the financial data of the City of Clear Lake's primary government unless the City of Clear Lake also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City of Clear Lake has not issued such reporting entity financial statements. The effects of not including the City of Clear Lake's legally separate component unit on the aggregate discretely presented component unit has not been determined.

Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our 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 the financial statements in accordance with the modified cash basis of accounting described in Note 1, 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 misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our 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 our 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 GAAS 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 for 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*, we:

- 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'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 our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are 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 we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules of employer's share of net pension liability (asset) and employer's contributions, budgetary comparison schedules, and schedule of changes in long-term debt (collectively the "supplementary information") are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, because of the significance of the matter disclosed in the Basis for Adverse and Unmodified Opinions paragraph, it is inappropriate to, and we do not, express an opinion on the supplementary information.

Other Information

Management is responsible for the other information. The other information comprises the listing of municipal officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2022, on our consideration of the City of Clear Lake's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and address.

Aberdeen, South Dakota
October 6, 2022

City of Clear Lake
Statement of Net Position—Modified Cash Basis
December 31, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,184,114	\$ 1,162,446	\$ 3,346,560
Investments	175,000	-	175,000
Restricted assets:			
Cash and cash equivalents	3,500	135,144	138,644
Due from (to) funds	50,000	(50,000)	-
	<u>\$ 2,412,614</u>	<u>\$ 1,247,590</u>	<u>\$ 3,660,204</u>
Net Position			
Restricted for:			
Customer deposits	\$ 3,500	\$ 60,930	\$ 64,430
Promoting the City	74,150	-	74,150
Library	6,881	-	6,881
Debt service purposes	-	112,077	112,077
Equipment repair or replacement	-	48,702	48,702
Unrestricted	<u>2,328,083</u>	<u>1,025,881</u>	<u>3,353,964</u>
	<u>\$ 2,412,614</u>	<u>\$ 1,247,590</u>	<u>\$ 3,660,204</u>

City of Clear Lake
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Loan Proceeds	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government							
Governmental activities:							
General government	\$ 157,972	\$ 27,805	\$ -	\$ -	\$ (130,167)	\$ -	\$ (130,167)
Public safety	106,723	5,474	-	-	(101,249)	-	(101,249)
Public works	419,216	75,101	187,349	151,275	(5,491)	-	(5,491)
Health and welfare	158,214	-	100	-	(158,114)	-	(158,114)
Culture and recreation	224,977	50,625	-	2,127	(172,225)	-	(172,225)
Conservation and development	417,120	-	-	-	(417,120)	-	(417,120)
Total governmental activities	1,484,222	159,005	187,449	153,402	(984,366)	-	(984,366)
Business-type activities:							
Water	302,760	396,064	-	-	-	93,304	93,304
Sewer	244,238	318,232	-	-	-	73,994	73,994
Total business-type activities	546,998	714,296	-	-	-	167,298	167,298
Total primary government	\$ 2,031,220	\$ 873,301	\$ 187,449	\$ 153,402	(984,366)	167,298	(817,068)
General Revenues							
Taxes:							
Property taxes					494,344	-	494,344
Sales taxes					640,854	-	640,854
State shared revenues					12,281	-	12,281
Unrestricted investment earnings					2,421	1,063	3,484
Miscellaneous revenue					46,114	-	46,114
Total general revenues					1,196,014	1,063	1,197,077
Change in Net Position					211,648	168,361	380,009
Net Position - Beginning					2,200,966	1,079,229	3,280,195
Net Position - Ending					\$ 2,412,614	\$ 1,247,590	\$ 3,660,204

See Notes to Financial Statements

City of Clear Lake
Balance Sheet—Modified Cash Basis—Governmental Funds
December 31, 2021

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Library Fines Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 2,103,083	\$ 74,150	\$ 6,881	\$ 2,184,114
Restricted cash and cash equivalents	3,500	-	-	3,500
Investments	175,000	-	-	175,000
Due from other funds	50,000	-	-	50,000
	<u>\$ 2,331,583</u>	<u>\$ 74,150</u>	<u>\$ 6,881</u>	<u>\$ 2,412,614</u>
Fund Balances				
263 Nonspendable	\$ 3,500	\$ -	\$ -	\$ 3,500
264 Restricted for:				
Promoting the city	-	74,150	-	74,150
Library	-	-	6,881	6,881
267 Unassigned	2,328,083	-	-	2,328,083
	<u>\$ 2,331,583</u>	<u>\$ 74,150</u>	<u>\$ 6,881</u>	<u>\$ 2,412,614</u>

City of Clear Lake

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2021

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Health Care Fund	Library Fines Fund	Total Governmental Funds
Revenues					
310 Taxes					
311 General property taxes	\$ 486,399	\$ -	\$ -	\$ -	\$ 486,399
313 General sales and use taxes	465,292	20,465	155,097	-	640,854
314 Gross receipts business taxes	4,931	-	-	-	4,931
319 Penalties and interest on delinquent taxes	3,014	-	-	-	3,014
Total taxes	959,636	20,465	155,097	-	1,135,198
320 Licenses and permits	10,785	-	-	-	10,785
330 Intergovernmental revenue					
331 Federal grants	129,472	-	-	-	129,472
334 State grants	151,275	-	-	-	151,275
335 State shared revenue					
335.01 Bank franchise tax	3,059	-	-	-	3,059
335.02 Motor vehicle commercial prorated	1,702	-	-	-	1,702
335.03 Liquor tax reversion	9,222	-	-	-	9,222
335.04 Motor vehicle licenses (5%)	22,139	-	-	-	22,139
335.08 Local government highway and bridge fund	24,763	-	-	-	24,763
338 County shared revenue					
338.01 County road tax (25%)	2,484	-	-	-	2,484
338.02 County road and bridge tax (25%)	2,633	-	-	-	2,633
338.03 County wheel tax	4,156	-	-	-	4,156
Total intergovernmental revenue	350,905	-	-	-	350,905
340 Charges for goods and services					
344 Sanitation	75,101	-	-	-	75,101
346 Culture and recreation	49,960	-	-	-	49,960
Total charges for good and services	125,061	-	-	-	125,061
350 Fines and forfeits					
351 Court fines and costs	5,474	-	-	-	5,474
354 Library	-	-	-	665	665
Total fines and forfeits	5,474	-	-	665	6,139
360 Miscellaneous revenue					
361 Investment earnings	2,421	-	-	-	2,421
362 Rentals	17,020	-	-	-	17,020
367 Contributions and donations from private sources	100	-	-	2,127	2,227
368 Liquor operating agreement income	24,008	-	-	-	24,008
369 Other	22,106	-	-	-	22,106
Total miscellaneous revenue	65,655	-	-	2,127	67,782
Total revenues	1,517,516	20,465	155,097	2,792	1,695,870

City of Clear Lake

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2021

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Health Care Fund	Library Fines Fund	Total Governmental Funds
Expenditures					
410 General government					
411 Legislative	27,639	-	-	-	27,639
412 Executive	6,078	-	-	-	6,078
413 Elections	994	-	-	-	994
414 Financial administration	101,155	-	-	-	101,155
419 Other	17,911	-	-	-	17,911
Total general government	<u>153,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,777</u>
420 Public safety					
421 Police	64,982	-	-	-	64,982
422 Fire	41,739	-	-	-	41,739
423 Protective inspection	2	-	-	-	2
Total public safety	<u>106,723</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>106,723</u>
430 Public works					
431 Highways and streets	318,733	-	-	-	318,733
432 Sanitation	84,631	-	-	-	84,631
435 Airport	1,913	-	-	-	1,913
439 Transit	200	-	-	-	200
Total public works	<u>405,477</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>405,477</u>
440 Health and welfare					
441 Health	3,117	-	-	-	3,117
446 Ambulance	-	-	10,000	-	10,000
447 Hospitals, nursing homes and rest homes	-	-	145,097	-	145,097
Total health and welfare	<u>3,117</u>	<u>-</u>	<u>155,097</u>	<u>-</u>	<u>158,214</u>
450 Culture and recreation					
451 Recreation	67,355	-	-	-	67,355
452 Parks	64,826	-	-	-	64,826
455 Libraries	65,757	-	-	2,385	68,142
456 Auditorium	19,956	-	-	-	19,956
457 Historical preservation	2,500	-	-	-	2,500
Total culture and recreation	<u>220,394</u>	<u>-</u>	<u>-</u>	<u>2,385</u>	<u>222,779</u>
460 Conservation and development					
465 Economic development and assistance	408,522	8,598	-	-	417,120
Total conservation and development	<u>408,522</u>	<u>8,598</u>	<u>-</u>	<u>-</u>	<u>417,120</u>
485 Capital outlay	20,132	-	-	-	20,132
Total expenditures	<u>1,318,142</u>	<u>8,598</u>	<u>155,097</u>	<u>2,385</u>	<u>1,484,222</u>
Net Change in Fund Balance	199,374	11,867	-	407	211,648
Fund Balance - Beginning	2,132,209	62,283	-	6,474	2,200,966
Fund Balance - Ending	<u>\$ 2,331,583</u>	<u>\$ 74,150</u>	<u>\$ -</u>	<u>\$ 6,881</u>	<u>\$ 2,412,614</u>

City of Clear Lake
Statement of Net Position—Modified Cash Basis—Proprietary Funds
December 31, 2021

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 282,562	\$ 879,884	\$ 1,162,446
Total current assets	<u>282,562</u>	<u>879,884</u>	<u>1,162,446</u>
Noncurrent Assets			
107.1 Restricted cash and cash equivalents	88,279	46,865	135,144
Total noncurrent assets	<u>88,279</u>	<u>46,865</u>	<u>135,144</u>
	<u>\$ 370,841</u>	<u>\$ 926,749</u>	<u>\$ 1,297,590</u>
Liabilities and Net Position			
Current Liabilities			
Due to other funds	\$ 50,000	\$ -	\$ 50,000
Net Position			
253.20 Restricted net position for:			
253.21 Revenue bond debt service	27,349	84,728	112,077
253.26 Equipment repair and/or replacement	-	48,702	48,702
253.29 Customer deposits	60,930	-	60,930
253.90 Unrestricted	<u>232,562</u>	<u>793,319</u>	<u>1,025,881</u>
Total net position	<u>320,841</u>	<u>926,749</u>	<u>1,247,590</u>
	<u>\$ 370,841</u>	<u>\$ 926,749</u>	<u>\$ 1,297,590</u>

City of Clear Lake

Statement of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2021

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 396,064	\$ 318,232	\$ 714,296
Total operating revenue	396,064	318,232	714,296
Operating Expenses			
410 Personal services	67,182	62,918	130,100
420 Other current expense	104,597	59,031	163,628
426.2 Materials	100,820	-	100,820
430 Capital assets	2,812	2,140	4,952
Total operating expenses	275,411	124,089	399,500
Operating Income	120,653	194,143	314,796
Nonoperating Revenue (Expense)			
361 Investment earnings	97	966	1,063
440 Debt service principal	(20,513)	(77,273)	(97,786)
442 Interest expense	(6,836)	(42,876)	(49,712)
Total nonoperating expense	(27,252)	(119,183)	(146,435)
Change in Net Position	93,401	74,960	168,361
Net Position - Beginning	227,440	851,789	1,079,229
Net Position - Ending	\$ 320,841	\$ 926,749	\$ 1,247,590

City of Clear Lake
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2021

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 396,064	\$ 318,232	\$ 714,296
Payments to suppliers	(205,417)	(59,031)	(264,448)
Payments to employees	(67,182)	(62,918)	(130,100)
Net Cash from Operating Activities	<u>123,465</u>	<u>196,283</u>	<u>319,748</u>
Cash Flows used for Capital and Related Financing Activities			
Purchase of capital assets	(2,812)	(2,140)	(4,952)
Principal paid on capital debt	(20,513)	(77,273)	(97,786)
Interest paid on capital debt	(6,836)	(42,876)	(49,712)
Net Cash used for Capital and Related Financing Activities	<u>(30,161)</u>	<u>(122,289)</u>	<u>(152,450)</u>
Cash Flows from Investing Activities			
Interest earnings	97	966	1,063
Net Cash from Investing Activities	<u>97</u>	<u>966</u>	<u>1,063</u>
Net Change in Cash and Cash Equivalents	93,401	74,960	168,361
Cash and Cash Equivalents - Beginning	<u>277,440</u>	<u>851,789</u>	<u>1,129,229</u>
Cash and Cash Equivalents - Ending	<u>\$ 370,841</u>	<u>\$ 926,749</u>	<u>\$ 1,297,590</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 282,562	\$ 879,884	\$ 1,162,446
Restricted cash and cash equivalents	88,279	46,865	135,144
	<u>\$ 370,841</u>	<u>\$ 926,749</u>	<u>\$ 1,297,590</u>
Reconciliation of Operating Income to Net Cash from Operating Activities:			
Operating income	\$ 120,653	\$ 194,143	\$ 314,796
Adjustments to reconcile operating income to net cash from operating activities:			
Purchase of capital assets included in capital and related financing activities	2,812	2,140	4,952
Net Cash from Operating Activities	<u>\$ 123,465</u>	<u>\$ 196,283</u>	<u>\$ 319,748</u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

The reporting entity is comprised of the primary government, City of Clear Lake, and one component unit, The Housing and Redevelopment Commission of the City of Clear Lake.

The Housing and Redevelopment Commission of the City of Clear Lake (Commission) is a component unit of the City of Clear Lake. The five members of the Commission are appointed by the Mayor with the approval of the governing board for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The governing board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a housing unit, or to issue debt, which gives the governing board the ability to impose its will on the Commission. Due to the financial statements of this entity being excluded from the City's financial statements, the opinion of the auditor's report has been modified.

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

The funds of the City of Clear Lake are described below:

Governmental Funds

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

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

- **Liquor, Lodging and Dining Gross Receipts Tax Fund** – Fund to account for an additional one percent sales tax on the gross receipts of lodging, alcoholic beverages, prepared food, and admissions, which tax shall be used for the purpose of land acquisition, architectural fees, constructions costs, payments for civic center, auditorium, or athletic facilities buildings including the promotion of advertising of the City (SDCL § 10-52A-2). This is a major fund.
- **Health Care Fund** – Fund to account for allocated sales tax receipts for the support of health care activities. This is a major fund.
- **Library Fines Fund** – A fund allowed by SDCL § 14-2-42 to account for library-related fines, similar charges and donations to be used for library activities. This is a major fund.

Proprietary Funds

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

The City reports the following enterprise funds:

- Water Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL § 9-47-1) This is a major fund.
- Sewer Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL § 9-48-2) This is a major fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the "economic resources" measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

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

Basis of Accounting

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such report balances include investments in certificates of deposit (those with maturities more than 90 days (three months) from the date of acquisition) acquired with cash accounts at cost, and interfund advances and borrowings arising from the use of a pooled cash account.

The modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) and certain liabilities and their related expense or expenditures (such as accounts payable and expenses for goods and services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows of resources that do not arise from a cash transaction or event that would be reported in GAAP basis financial statements (such as donated assets) are not reported in this modified cash basis presentation, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

D. Deposits and Investments

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

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

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

- The City presents the net residual amounts due between governmental and business-type activities, which are presented as amounts due to or due from other funds.
- The City did not have internal service fund activity which required elimination as of December 31, 2021.

F. Capital Assets

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

G. Long-Term Liabilities

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated but are reported as a separate program cost category.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. Under the modified cash basis, the accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

H. Program Revenues

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

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

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statement of revenues, expenses and changes in fund net position, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

J. Cash and Cash Equivalents

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

K. Equity Classifications

Government-Wide Statements

Equity is classified as net position and is comprised of three components: net investment in capital assets; restricted net position; and unrestricted net position. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned, and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

L. Application of Net Position and Fund Balance

The City uses restricted amounts first when both restricted and unrestricted net position or fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements 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.

M. Fund Balance Classification Policies and Procedures

The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance – Amounts that are in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint.
- Assigned Fund Balance – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned Fund Balance – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. An assigned fund balance is established by the City Council through adoption of a resolution designating a fund balance as intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Liquor, Lodging, and Dining Gross Receipts Tax Fund	Sales taxes
Health Care Fund	Sales taxes
Library Fines Fund	Fines and donations

Note 2 - Deposits and Investments

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

Deposits

The City’s cash deposits are made in qualified public depositories as defined by SDCL §§ 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

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

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2021, the City’s deposits in DNB National Bank were exposed to custodial credit risk with 2.58% of deposits being uncollateralized amounting to approximately \$86,277 of deposits at risk.

The actual bank balances at December 31, 2021, are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 360,399
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	3,344,060
	\$ 3,704,459

The City's carrying amount of deposits at December 31, 2021, is as follows:

Cash and cash equivalents	\$ 3,485,204
Investments	175,000
	\$ 3,660,204

Investments

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

As of December 31, 2021, the investments reported in the financial statements consist of only certificates of deposit.

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. As of December 31, 2021, all of the City's investments consist of certificates of deposit which have maturities of less than one year.

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

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment, as permitted by SDCL § 9-32-18.

Under the modified cash basis of accounting, investments are stated at cost.

Note 3 - Property Taxes

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

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

Note 4 - Retirement Plan

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

Benefits Provided

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

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

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

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

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

All benefits except those depending on the member’s accumulated contributions are annually increased by the cost-of-living adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6% of salary; Class B judicial members, 9% of salary; and Class B public safety member, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The City’s share of contributions made to the SDRS for the years ended December 31, 2021, 2020, and 2019, were \$17,017, \$14,694, and \$13,290, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2021, SDRS is 105.52% funded and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System as of the measurement period ending June 30, 2021, and reported by the City as of December 31, 2021, are as follows:

Proportionate share of pension liability	\$ 1,646,077
Less proportionate share of net position restricted for pension benefits	<u>1,736,988</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (90,911)</u></u>

At December 31, 2021, the City disclosed a liability (asset) of (\$90,911) for its proportionate share of the net pension liability (asset). 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 contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the City’s proportion was 0.0119%, which is an increase of 0.0015% from its proportion measured as of June 30, 2020. The City’s proportionate share of the net pension liability (asset) is not reported in the financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability (asset) 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	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense. 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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	0.9%
	<u>100.0%</u>	

Discount Rate

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

Sensitivity of Liability (Asset) To Changes in the Discount Rate

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

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 147,208	\$ (90,911)	\$ (284,210)

Pension Plan Fiduciary Net Position

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

Note 5 - Significant Contingencies – Litigation

At December 31, 2021, the City was not involved in any litigation that would be material to the financial statements.

Note 6 - Restricted Net Position

Restricted net position for the year ended December 31, 2021, is as follows:

Fund	Restricted By	Amount
General Fund	Contractual	\$ 3,500
Liquor, Lodging, and Dining		
Gross Receipts Sales Tax Fund	State Law	74,150
Library Fines Fund	Contractual	6,881
Water Fund	Contractual	88,279
Sewer Fund	Contractual	133,430

Note 7 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2021, the City managed its risks as follows:

Employee Health Insurance

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a no lifetime maximum payment per person.

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

Liability Insurance

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

The City carries a deductible ranging from \$0 to \$50,000 depending on the specific coverage within governmental liability coverage, a \$0 deductible for automobile liability coverage, a deductible ranging from \$0 to \$10,000 depending on the specific type of coverage within governmental property coverage, and a \$0 deductible for government crime coverage.

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed. The prior policy provided the departing member with such a partial refund because the departing member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing member pursuant to the revised IGC.

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

Workers' 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 workers' 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 workers' compensation claims. The City pays an annual premium, to provide workers' compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits

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

During the year ended December 31, 2021, no claims for unemployment benefits were paid. At December 31, 2021, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 8 - Interfund Transactions

As of December 31, 2021, the Water Fund has borrowed \$50,000 from the General Fund to help supplement operations in a prior year for a Water Fund project. The Water Fund anticipates repaying the whole amount borrowed back to the General Fund within the next year, subject to availability of cash within the Water Fund generated from net income from Water Fund operations.



Supplementary Information
December 31, 2021

City of Clear Lake

City of Clear Lake

Schedule of Employer's Share of Net Pension Liability (Asset) and Employer's Contributions Year Ended December 31, 2021

Pension Plan	Fiscal Year Ending *	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2021	0.0119%	\$ (90,911)	\$ 269,400	33.7%	105.52%
SDRS	6/30/2020	0.0103%	(448)	226,780	0.2%	100.04%
SDRS	6/30/2019	0.0107%	(1,139)	228,534	0.5%	100.09%
SDRS	6/30/2018	0.0104%	(243)	216,248	0.1%	100.02%
SDRS	6/30/2017	0.0100%	(904)	202,298	0.4%	100.1%
SDRS	6/30/2016	0.0105%	35,465	199,633	17.8%	96.89%
SDRS	6/30/2015	0.0106%	(45,099)	194,133	23.2%	104.1%

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

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2021	\$ 17,017	\$ 17,017	\$ -	\$ 283,615	6.0%
SDRS	12/31/2020	14,694	14,694	-	244,891	6.0%
SDRS	12/31/2019	13,290	13,290	-	221,507	6.0%
SDRS	12/31/2018	13,491	13,491	-	224,855	6.0%
SDRS	12/31/2017	12,411	12,411	-	206,854	6.0%
SDRS	12/31/2016	11,930	11,930	-	198,825	6.0%
SDRS	12/31/2015	11,859	11,859	-	197,600	6.0%

GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Clear Lake
Schedule of Changes in Notes and Bonds Payable
Year Ended December 31, 2021

<u>Governmental activities</u>	<u>Notes and Bonds Payable 1/1/21</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/21</u>
Enterprise Long-Term Debt				
State Revolving Fund Loan				
Drinking Water	\$ 235,524	\$ -	(20,513)	\$ 215,011
Clean Water	244,888	-	(39,383)	205,505
USDA RD Loan - Sewer	1,905,023	-	(37,890)	1,867,133
	<u>\$ 2,385,435</u>	<u>\$ -</u>	<u>\$ (97,786)</u>	<u>\$ 2,287,649</u>

City of Clear Lake
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 490,279	\$ 490,279	\$ 486,399	\$ (3,880)
313 General sales and use taxes	408,000	408,000	465,292	57,292
314 Gross receipts business taxes	-	-	4,931	4,931
315 Amusement	240	240	-	(240)
319 Penalties and interest on delinquent taxes	-	-	3,014	3,014
Total taxes	<u>898,519</u>	<u>898,519</u>	<u>959,636</u>	<u>61,117</u>
320 Licenses and permits	<u>4,500</u>	<u>4,500</u>	<u>10,785</u>	<u>6,285</u>
330 Intergovernmental revenue				
331 Federal grants	-	5,701	129,472	123,771
334 State grants	-	151,275	151,275	-
335 State shared revenue				
335.01 Bank franchise tax	2,000	2,000	3,059	1,059
335.02 Motor vehicle commercial prorated	3,000	3,000	1,702	(1,298)
335.03 Liquor tax reversion	8,000	8,000	9,222	1,222
335.04 Motor vehicle licenses (5%)	18,000	18,000	22,139	4,139
335.08 Local government highway and bridge fund	22,000	22,000	24,763	2,763
338 County shared revenue				
338.01 County road tax (25%)	2,485	2,485	2,484	(1)
338.02 County road and bridge tax (25%)	1,000	1,000	2,633	1,633
338.03 County wheel tax	3,400	3,400	4,156	756
Total intergovernmental revenue	<u>59,885</u>	<u>216,861</u>	<u>350,905</u>	<u>134,044</u>
340 Charges for good and services				
344 Sanitation	83,000	83,000	75,101	(7,899)
346 Culture and recreation	26,500	26,500	49,960	23,460
Total charges for goods and services	<u>109,500</u>	<u>109,500</u>	<u>125,061</u>	<u>15,561</u>
350 Fines and forfeits				
351 Court fines and costs	50	50	5,474	5,424
Total fines and forfeits	<u>50</u>	<u>50</u>	<u>5,474</u>	<u>5,424</u>
360 Miscellaneous revenue				
361 Investment earnings	7,000	7,000	2,421	(4,579)
362 Rentals	14,000	14,000	17,020	3,020
367 Contributions and donations from private sources	200	200	100	(100)
368 Liquor operating agreement income	20,650	20,650	24,008	3,358
369 Other	5,600	5,600	22,106	16,506
Total miscellaneous revenue	<u>47,450</u>	<u>47,450</u>	<u>65,655</u>	<u>18,205</u>
Total revenues	<u>1,119,904</u>	<u>1,276,880</u>	<u>1,517,516</u>	<u>240,636</u>

City of Clear Lake
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	33,375	33,875	27,639	6,236
411.5 Contingency	58,300	58,300		
Amount transferred		(47,250)	-	11,050
412 Executive	5,780	6,400	6,078	322
413 Elections	1,000	1,000	994	6
414 Financial administration	106,350	110,350	101,155	9,195
419 Other	35,490	35,490	22,106	13,384
Total general government	<u>240,295</u>	<u>198,165</u>	<u>157,972</u>	<u>40,193</u>
420 Public safety				
421 Police	72,000	77,701	64,982	12,719
422 Fire	41,900	42,150	41,739	411
423 Protective inspection	335	335	2	333
Total public safety	<u>114,235</u>	<u>120,186</u>	<u>106,723</u>	<u>13,463</u>
430 Public works				
431 Highways and streets	499,775	531,675	330,478	201,197
432 Sanitation	94,800	96,800	84,631	12,169
435 Airport	10,370	10,370	3,907	6,463
439 Transit	200	200	200	-
Total public works	<u>605,145</u>	<u>639,045</u>	<u>419,216</u>	<u>219,829</u>
440 Health and welfare				
441 Health	5,780	6,492	3,117	3,375
Total health and welfare	<u>5,780</u>	<u>6,492</u>	<u>3,117</u>	<u>3,375</u>
450 Culture and recreation				
451 Recreation	93,275	93,275	67,355	25,920
452 Parks	71,200	76,300	64,826	11,474
455 Library	60,000	62,880	67,955	(5,075)
456 Auditorium	29,700	29,700	19,956	9,744
457 Historical preservation	2,500	2,500	2,500	-
Total culture and recreation	<u>256,675</u>	<u>264,655</u>	<u>222,592</u>	<u>42,063</u>
460 Conservation and development				
465 Economic development and assistance	29,000	466,813	408,522	58,291
Total conservation and development	<u>29,000</u>	<u>466,813</u>	<u>408,522</u>	<u>58,291</u>
Total expenditures	<u>1,251,130</u>	<u>1,695,356</u>	<u>1,318,142</u>	<u>377,214</u>
Net Change in Fund Balance	(131,226)	(418,476)	199,374	617,850
Fund Balance - Beginning	<u>2,132,209</u>	<u>2,132,209</u>	<u>2,132,209</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 2,000,983</u>	<u>\$ 1,713,733</u>	<u>\$ 2,331,583</u>	<u>\$ 617,850</u>

City of Clear Lake
 Budgetary Comparison Schedule—Liquor, Lodging and Dining Gross Receipts Tax Fund
 Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 18,000	\$ 18,000	\$ 20,465	\$ 2,465
Total taxes	18,000	18,000	20,465	2,465
Total revenues	18,000	18,000	20,465	2,465
Expenditures				
460 Conservation and development				
465 Economic development and assistance	18,000	18,000	8,598	9,402
Total expenditures	18,000	18,000	8,598	9,402
Net Change in Fund Balance	-	-	11,867	11,867
Fund Balance - Beginning	62,283	62,283	62,283	-
Fund Balance - Ending	\$ 62,283	\$ 62,283	\$ 74,150	\$ 11,867

City of Clear Lake
 Budgetary Comparison Schedule—Health Care Fund
 Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 160,000	\$ 160,000	\$ 155,097	\$ (4,903)
Total taxes	160,000	160,000	155,097	(4,903)
Total revenues	160,000	160,000	155,097	(4,903)
Expenditures				
440 Health and welfare				
446 Ambulance	10,000	10,000	10,000	-
447 Hospitals, nursing homes and rest homes	150,000	150,000	145,097	4,903
Total expenditures	160,000	160,000	155,097	4,903
Net Change in Fund Balance	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -

City of Clear Lake
 Budgetary Comparison Schedule—Library Fines Fund
 Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
350 Fines and forfeits				
354 Library	\$ -	\$ -	\$ 665	\$ (665)
Total fines and forfeits	-	-	665	(665)
360 Miscellaneous revenue				
367 Contributions and donations from private sources	8,000	8,000	2,127	(5,873)
Total miscellaneous revenue	8,000	8,000	2,127	(5,873)
Total revenues	8,000	8,000	2,792	(6,538)
Expenditures				
450 Culture and recreation				
455 Libraries	8,000	8,000	2,385	5,615
Total expenditures	8,000	8,000	2,385	5,615
Net Change in Fund Balance	-	-	407	(923)
Fund Balance - Beginning	6,474	6,474	6,474	-
Fund Balance - Ending	\$ 6,474	\$ 6,474	\$ 6,881	\$ (923)

Note 1 - Budgets and Budgetary Accounting

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

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

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

The City did not encumber any amounts at December 31, 2021.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with a modified cash basis of accounting.

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements prepared on the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances; however, in the budgetary comparison schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

Note 3 - Schedule of the Employer's Share of Net Pension Liability (Asset) and Employer's Contributions

Changes from 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.

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% (0.5% 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%. That 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 COLA 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.



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

The City Council
City of Clear Lake
Clear Lake, South Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Clear Lake (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated October 6, 2022. The financial statements were 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.

Report on Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings, we identified certain deficiencies in internal control as items 2021-001 and 2021-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

City of Clear Lake's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings. The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
October 6, 2022

2021-001 - Lack of Segregation of Duties

Material Weakness

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. It also allows for adequate review of manual adjusting journal entries posted by individuals separate from who originated the entry.

Condition: The City of Clear Lake has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, payroll, and review of manual entries functions because of a lack of segregation of duties.

Cause: The City has an insufficient number of staff to adequately separate duties and has determined it would not be cost effective to hire additional staff.

Effect: This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

Recommendation: Although it is recognized that the number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City Council exercise adequate oversight of the accounting function, which would include City Council review of manual journal entries.

Views of Responsible Officials: Management agrees with the finding.

2021-002 - Preparation of Financial Statements, Footnotes, and Audit Adjustments

Material Weakness

Criteria: The City of Clear Lake's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing all necessary entries to the financial statements being audited in accordance with the modified cash basis of accounting.

Condition: The City requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2021. As a part of the financial statement preparation process, we compiled certain net position restrictions in the proprietary funds and we proposed certain audit adjustments that were not identified as a result of the City's existing internal controls which, therefore, could result in a misstatement of the City's financial statements.

Cause: The City does not have staff able to prepare the financial statements and the related footnotes which could cause the need for auditors to, at times, propose various journal entries.

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

Recommendation: This circumstance is not unusual in a city of this 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. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.