



Financial Statements
December 31, 2020
City of Milbank

Mayor Pat Raffety

Governing Board Joel Foster
Steve Wiener
James Johnson
Scott Hoeke
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City Administrator John Forman

Finance Officer Cynthia Schumacher

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Independent Auditor's Report

The City Council
City of Milbank
Milbank, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities and each major fund of the City of Milbank as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstance. 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 Responsibility

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

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

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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit

Management has not included the financial data for a legally separate component unit in the City's financial statements. 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's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, net position, revenues, and expenditures of the aggregate discretely presented component unit has not been determined.

Adverse Opinion on the Aggregate Discretely Presented Component Unit

In our opinion, because of the omission of the discretely presented component unit, as described in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component unit of the City as of December 31, 2020, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis - of the governmental activities, the business-type activities, and each major fund of the City of Milbank as of December 31, 2020, and the respective changes in financial position - modified cash basis and, where applicable, cash flows - modified cash basis thereof and for the year then ended in conformity with the basis of accounting described in Note 1.

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.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Milbank's primary government basic financial statements. The budgetary comparison schedules, schedule of net pension liability (asset) and pension contributions, and schedule of changes in notes and bonds payable (supplementary information) are presented for purposes of additional analysis and are not a required part of the primary government's basic financial statements.

The supplementary 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. Such 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. Because of the significance of the matter described in the Basis for Adverse Opinion on the Reporting Entity paragraph, it is inappropriate to, and we do not, express an opinion on such supplementary information.

The listing of municipal officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2021, on our consideration of the City of Milbank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Audit Standards in considering the City of Milbank'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 date.

Aberdeen, South Dakota
December 13, 2021

City of Milbank
Statement of Net Position—Modified Cash Basis
December 31, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,929,396	\$ 966,602	\$ 2,895,998
Restricted assets:			
Cash and cash equivalents restricted for:			
Debt repayment	-	301,323	301,323
	<u>\$ 1,929,396</u>	<u>\$ 1,267,925</u>	<u>\$ 3,197,321</u>
Net Position			
Restricted for:			
Debt service	\$ -	\$ 301,323	\$ 301,323
Promotion	55,891	-	55,891
Unrestricted	<u>1,873,505</u>	<u>966,602</u>	<u>2,840,107</u>
	<u>\$ 1,929,396</u>	<u>\$ 1,267,925</u>	<u>\$ 3,197,321</u>

City of Milbank
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2020

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		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 418,193	\$ 32,552	\$ -	\$ -	\$ (385,641)	\$ -	\$ (385,641)
Public safety	742,010	4,813	-	2,349	(734,848)	-	(734,848)
Public works	1,536,983	130,709	144,324	323,388	(938,562)	-	(938,562)
Culture and recreation	708,969	7,199	-	2,485	(699,285)	-	(699,285)
Conservation and development	140,605	-	-	-	(140,605)	-	(140,605)
Debt service	2,097,315	-	-	-	(2,097,315)	-	(2,097,315)
Total governmental activities	5,644,075	175,273	144,324	328,222	(4,996,256)	-	(4,996,256)
Business-type activities:							
Water	509,582	639,504	820	-	-	130,742	130,742
Sewer	536,235	726,004	303	-	-	190,072	190,072
Total business-type activities	1,045,817	1,365,508	1,123	-	-	320,814	320,814
Total primary government	\$ 6,689,892	\$ 1,540,781	\$ 145,447	\$ 328,222	(4,996,256)	320,814	(4,675,442)
General Revenues							
Taxes:							
Property taxes					828,174	-	828,174
Sales taxes					2,930,140	-	2,930,140
State shared revenues					33,725	-	33,725
Unrestricted investment earnings					11,167	5,380	16,547
Miscellaneous revenue					157,625	-	157,625
Debt issued					1,675,600	-	1,675,600
Transfers					145,000	(145,000)	-
Sale of Municipal Property					2,520	-	2,520
Compensation for Damage to Capital Assets					18,619	-	18,619
Total general revenues					5,802,570	(139,620)	5,662,950
Change in Net Position					806,314	181,194	987,508
Net Position - Beginning					1,123,082	1,086,731	2,209,813
Net Position - Ending					\$ 1,929,396	\$ 1,267,925	\$ 3,197,321

See Notes to Financial Statements

City of Milbank
Balance Sheet—Modified Cash Basis—Governmental Funds
December 31, 2020

	<u>General Fund</u>	<u>3rd Penny Sales Tax Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 1,873,505	\$ 55,891	\$ 1,929,396
Restricted cash and cash equivalents	-	-	-
	<u>\$ 1,873,505</u>	<u>\$ 55,891</u>	<u>\$ 1,929,396</u>
Fund Balances			
264 Restricted for:			
Debt service	\$ -	\$ -	\$ -
Promotion	-	55,891	55,891
267 Unassigned	<u>1,873,505</u>	<u>-</u>	<u>1,873,505</u>
	<u>\$ 1,873,505</u>	<u>\$ 55,891</u>	<u>\$ 1,929,396</u>

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2020

	General Fund	3rd Penny Sales Tax Fund	Total Governmental Funds
Revenues			
310 Taxes			
311 General property taxes	\$ 826,936	\$ -	\$ 826,936
313 General sales and use taxes	2,816,690	113,450	2,930,140
319 Penalties and interest on delinquent taxes	1,238	-	1,238
Total taxes	<u>3,644,864</u>	<u>113,450</u>	<u>3,758,314</u>
320 Licenses and permits	<u>28,026</u>	<u>-</u>	<u>28,026</u>
330 Intergovernmental revenue			
331 Federal grants	323,388	-	323,388
334 State grants	2,349	-	2,349
335 State shared revenue			
335.01 Bank franchise tax	10,228	-	10,228
335.02 Motor vehicle commercial prorated	7,646	-	7,646
335.03 Liquor tax reversion	23,209	-	23,209
335.04 Motor vehicle licenses (5%)	39,096	-	39,096
335.08 Local government highway and bridge fund	79,198	-	79,198
335.20 Other	288	-	288
338 County shared revenue			
338.01 County road tax (25%)	7,665	-	7,665
338.02 County road and bridge tax (25%)	10,719	-	10,719
339 Other governmental revenues	125,000	-	125,000
Total intergovernmental revenue	<u>628,786</u>	<u>-</u>	<u>628,786</u>
340 Charges for goods and services			
341 General government	2,976	-	2,976
342 Public safety	3,282	-	3,282
344 Sanitation	60,320	-	60,320
346 Culture and recreation	7,199	-	7,199
348 Cemetery	17,600	-	17,600
349 Other (airport)	52,789	-	52,789
Total charges for good and services	<u>144,166</u>	<u>-</u>	<u>144,166</u>
350 Fines and forfeits			
351 Court fines and costs	16	-	16
352 Animal control fines	502	-	502
359 Other	1,013	-	1,013
Total fines and forfeits	<u>1,531</u>	<u>-</u>	<u>1,531</u>

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2020

	General Fund	3rd Penny Sales Tax Fund	Total Governmental Funds
360 Miscellaneous revenue			
361 Investment earnings	10,820	347	11,167
362 Rentals	1,550	-	1,550
367 Contributions and donations from private sources	2,485	-	2,485
369 Other	32,625	-	32,625
Total miscellaneous revenue	47,480	347	47,827
Total revenues	4,494,853	113,797	4,608,650
Expenditures			
410 General government			
411 Legislative	45,341	-	45,341
414 Financial administration	361,796	-	361,796
Total general government	407,137	-	407,137
420 Public safety			
421 Police	551,401	-	551,401
422 Fire	107,515	-	107,515
Total public safety	658,916	-	658,916
430 Public works			
431 Highways and streets	495,158	-	495,158
432 Sanitation	41,345	-	41,345
435 Airport	34,619	-	34,619
Total public works	571,122	-	571,122
450 Culture and recreation			
452 Parks	318,859	-	318,859
Total culture and recreation	318,859	-	318,859
460 Conservation and development			
465 Economic development and assistance (industrial development)	-	140,605	140,605
Total conservation and development	-	140,605	140,605

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2020

	General Fund	3rd Penny Sales Tax Fund	Total Governmental Funds
470 Debt service	2,097,315	-	2,097,315
485 Capital outlay	1,450,121	-	1,450,121
Total expenditures	5,503,470	140,605	5,644,075
Excess of Revenue over (under) Expenditures	(1,008,617)	(26,808)	(1,035,425)
Other Financing Sources			
391.01 Transfers in	145,000	-	145,000
391.03 Sale of municipal property	2,520	-	2,520
391.04 Compensation for loss/damage to capital assets	18,619	-	18,619
391.2 Debt issued	1,675,600	-	1,675,600
Total other financing sources	1,841,739	-	1,841,739
Net Change in Fund Balance	833,122	(26,808)	806,314
Fund Balance - Beginning	1,040,383	82,699	1,123,082
Fund Balance - Ending	\$ 1,873,505	\$ 55,891	\$ 1,929,396

City of Milbank
Statement of Net Position—Modified Cash Basis—Proprietary Funds
December 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 530,997	\$ 435,605	\$ 966,602
Total current assets	<u>530,997</u>	<u>435,605</u>	<u>966,602</u>
Noncurrent Assets			
107.1 Restricted deposits for:			
Debt repayment	301,323	-	301,323
Total noncurrent assets	<u>301,323</u>	<u>-</u>	<u>301,323</u>
	<u>\$ 832,320</u>	<u>\$ 435,605</u>	<u>\$ 1,267,925</u>
Net Position			
253.20 Restricted net position for:			
Debt repayment	\$ 301,323	\$ -	\$ 301,323
253.90 Unrestricted	<u>530,997</u>	<u>435,605</u>	<u>966,602</u>
Total net position	<u>832,320</u>	<u>435,605</u>	<u>1,267,925</u>
	<u>\$ 832,320</u>	<u>\$ 435,605</u>	<u>\$ 1,267,925</u>

Statement of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
369 Miscellaneous	\$ 1,443	\$ 235	\$ 1,678
369.01 Other (deposits collected)	-	-	-
380 Charges for goods and services	385,099	725,769	1,110,868
Revenue dedicated to servicing debt	252,962	-	252,962
Total operating revenue	<u>639,504</u>	<u>726,004</u>	<u>1,365,508</u>
Operating Expenses			
410 Personal services	87,731	231,555	319,286
420 Other current expense	208,795	304,680	513,475
426 Materials	1,250	-	1,250
Total operating expenses	<u>297,776</u>	<u>536,235</u>	<u>834,011</u>
Operating Income	<u>341,728</u>	<u>189,769</u>	<u>531,497</u>
Nonoperating Revenue (Expense)			
330 Operating Grants	820	303	1,123
361 Investment earnings	3,428	1,952	5,380
440 Debt service (principal)	(167,150)	-	(167,150)
441 Interest expense	(44,656)	-	(44,656)
Total nonoperating revenue (expense)	<u>(207,558)</u>	<u>2,255</u>	<u>(205,303)</u>
Income Before Transfers	134,170	192,024	326,194
514 Transfers to other fund	-	(145,000)	(145,000)
Change in Net Position	134,170	47,024	181,194
Net Position - Beginning	<u>698,150</u>	<u>388,581</u>	<u>1,086,731</u>
Net Position - Ending	<u>\$ 832,320</u>	<u>\$ 435,605</u>	<u>\$ 1,267,925</u>

City of Milbank
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from Operating Activities			
Receipt from customers	\$ 639,504	\$ 726,004	\$ 1,365,508
Payments to suppliers	(210,045)	(304,680)	(514,725)
Payments to employees	(87,731)	(231,555)	(319,286)
Net Cash from Operating Activities	<u>341,728</u>	<u>189,769</u>	<u>531,497</u>
Cash Flows from (used for) Noncapital and Related Financing Activity			
Operating Grants	820	302	1,122
Transfers from (to) other funds	-	(145,000)	(145,000)
Net Cash from (used for) Noncapital and Related Financing Activities	<u>820</u>	<u>(144,698)</u>	<u>(143,878)</u>
Cash Flows used for Capital and Related Financing Activities			
Principal paid on capital debt	(167,150)	-	(167,150)
Interest paid on capital debt	(44,656)	-	(44,656)
Net Cash used for Capital and Related Financing Activity	<u>(211,806)</u>	<u>-</u>	<u>(211,806)</u>
Cash Flows from Investing Activities			
Interest earnings	3,428	1,952	5,380
Net Cash from Investing Activities	<u>3,428</u>	<u>1,952</u>	<u>5,380</u>
Net Change in Cash and Cash Equivalents	134,170	47,023	181,193
Cash and Cash Equivalents - Beginning	698,150	388,582	1,086,732
Cash and Cash Equivalents - Ending	<u>\$ 832,320</u>	<u>\$ 435,605</u>	<u>\$ 1,267,925</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 530,997	\$ 435,605	\$ 966,602
Restricted deposits	301,323	-	301,323
	<u>\$ 832,320</u>	<u>\$ 435,605</u>	<u>\$ 1,267,925</u>
Reconciliation of Operating Income to Net Cash from:			
Operating activities			
Operating income	\$ 341,728	\$ 189,769	\$ 531,497
Net Cash from Operating Activities	<u>\$ 341,728</u>	<u>\$ 189,769</u>	<u>\$ 531,497</u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The reporting entity of the City of Milbank (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 Milbank, and one component unit, The Housing and Redevelopment Commission of the City of Milbank.

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 (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The City's activities are presented using a modified cash basis of accounting while the component unit uses generally accepted accounting principles (GAAP). Based on the variance in the basis of accounting, the City has elected to present only the primary government activities. The component unit's financial statements are available upon request from The Housing and Redevelopment Commission of the City of Milbank.

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 three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the 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 Milbank 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 by local ordinance for specified purposes. The 3rd Penny Sales Tax Fund is the only special revenue fund maintained by the City and is a major fund. This fund accounts for the third penny sales tax received by the City. Proceeds from third penny sales tax are restricted by South Dakota Codified Law 10-52A-2 for the promotion and advertising of the City.

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 nonoperating 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 excluding the purchase of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating 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 inter-fund advances and borrowing arising from the use of a pooled cash account.

This 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 expenses or expenditures (such as accounts payable and expenses for goods or 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, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares or similar investments in external investment pools are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months and/or those types of 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, amounts reported as interfund activity and balances in the fund financial statements will be eliminated or reclassified.

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 is 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 in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

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 government would first use committed, then assigned, and, lastly, unassigned amounts of unrestricted net 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 not in spendable 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. The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.
- 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. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

- 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.

N. Rounding

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

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, 2020, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2020, are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 255,000
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	2,942,321
	\$ 3,197,321

The City's carrying amount of deposits at December 31, 2020, is as follows:

Cash and cash equivalents	\$ 3,197,321
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Investments

In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

As of December 31, 2020, the City did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

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 fund making the investment.

Note 3 - Property Taxes

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and 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 - Restricted Net Position

The following table shows the net position restricted for other purposes as shown on the statement of net position:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
General Fund	Contractual Agreement	\$ -
3rd Penny Sales Tax Fund	State Law	55,891
Sewer Fund	Contractual Agreement	301,323

Note 5 - 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, 2020, the City managed its risks as follows:

Employee Health Insurance

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

Liability Insurance

The City joined the South Dakota Public Assurance Alliance, 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 a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, officials liability, automobile liability, and law enforcement liability.

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA, a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next annual budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

Year 1	55%
Year 2	50%
Year 3	40%
Year 4	35%
Year 5	30%
Year 6+	20%

All refunds shall be paid to the withdrawing member over a five-year term.

As of December 31, 2020, the City's balance available to be refunded per the SDPAA was \$145,336, which was an increase of \$6,175 from the previous year. This balance is not included within the balance sheet.

The City carries the following deductibles for the coverages listed above:

Coverage	Deductible
General liability	\$ -
Officials liability	500
Automobile liability	-
Law enforcement liability	2,000
Injunctive relief	5,000

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, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide workers' compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual, per incident.

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

During the year ended December 31, 2020, no claims for unemployment benefits were paid. At December 31, 2020, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 6 - Conduit Debt

The City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property of the private-sector entity being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the City of Milbank, the State of South Dakota, nor any other political subdivision of the State is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2020, the unpaid principal balance on the bonds issued by the City was approximately \$6,635,000.

Note 7 - 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, defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <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. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater 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 assets will be greater or equal to the accrued liabilities.

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6% 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, 2020, 2019, and 2018, were \$66,090, \$63,660, and \$58,321, respectively, equal to the required contributions each year.

Pension Liabilities (Assets) and Pension Expense

At June 30, 2020, SDRS is 100.04% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of SDRS, for the City as of this measurement period ending June 30, 2020, and disclosed by the City as of December 31, 2020, are as follows:

Proportionate share of pension liability	\$ 5,868,492
Less proportionate share of net pension restricted for pension benefits	<u>5,870,565</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (2,073)</u></u>

The net pension liability (asset) was measured as of June 30, 2020, 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, 2020, the City's proportion was 0.0477%, which is a decrease of 0.00066% from its proportion measured as of June 30, 2019. The City's proportionate share of the net pension liability (asset) is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2020, 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
Future COLAs	1.41%

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

The actuarial assumptions used in the June 30, 2020, 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, 2020 (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%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%
	<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 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 Change 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 one percentage point lower (5.50%) or one 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)	\$ 804,273	\$ (2,073)	\$ (661,665)

Pension Plan Fiduciary Net Position

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

Note 8 - Significant Contingencies - Litigation

At December 31, 2020, the City was not involved in any litigation that would have a material impact to the financial statements.

Note 9 - Commitments

During 2020, the City approved and entered into a contract for a campground improvement project. The total cost of the contract was \$299,778. Expenditures to date on this contract as of December 31, 2020, were \$174,626 and project was expected to be completed in 2021.

Subsequent to year-end, the City entered into various commitments relating to street and airport projects that are in the normal course of City operations.

Note 10 - Interfund Transfers

During 2020, the Sewer Fund transferred \$145,000 to the General Fund to supplement operations.



Supplementary Information
December 31, 2020

City of Milbank

City of Milbank
Schedule of Changes in Notes and Bonds Payable
Year Ended December 31, 2020

<u>Notes and Bonds Payable</u>	<u>Notes and Bonds Payable 1/1/20</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/20</u>
Governmental Long-Term Debt				
231.02 Revenue bonds	\$ 2,025,000	\$ 1,675,000	\$ 2,025,000	\$ 1,675,000
Enterprise Notes and Bonds Payable				
231.02 Revenue bonds				
Water - SRF	<u>1,849,441</u>	<u>-</u>	<u>167,150</u>	<u>1,682,291</u>
	<u>\$ 3,874,441</u>	<u>\$ 1,675,000</u>	<u>\$ 2,192,150</u>	<u>\$ 3,357,291</u>

City of Milbank

Schedules of Employer Share of Net Pension Liability (Asset) and Pension Contributions
Year Ended December 31, 2020

Pension Plan	Fiscal Year Ending *	City's Proportion 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	6/30/2020	0.0477%	\$ (2,073)	\$ 934,157	0.22%	100.04%
SDRS	6/30/2019	0.0484%	(5,130)	920,269	0.56%	100.09%
SDRS	6/30/2018	0.0453%	(1,057)	845,810	0.12%	100.02%
SDRS	6/30/2017	0.0455%	(4,125)	829,732	0.50%	100.1%
SDRS	6/30/2016	0.0495%	167,102	837,416	19.95%	96.9%
SDRS	6/30/2015	0.0502%	(213,001)	814,630	26.15%	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-Employee Payroll (b/d)
SDRS	12/31/2020	\$ 66,090	\$ 66,090	-	\$ 984,297	6.7%
SDRS	12/31/2019	63,660	63,660	-	949,055	6.7%
SDRS	12/31/2018	58,321	58,321	-	870,754	6.7%
SDRS	12/31/2017	55,938	55,938	-	835,995	6.7%
SDRS	12/31/2016	56,394	56,394	-	843,344	6.7%
SDRS	12/31/2015	55,218	55,218	-	816,972	6.8%

*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 Milbank
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 826,410	\$ 826,410	\$ 826,936	\$ 526
313 General sales and use taxes	2,500,000	2,500,000	2,816,690	316,690
319 Penalties and interest on delinquent taxes	-	-	1,238	1,238
Total taxes	<u>3,326,410</u>	<u>3,326,410</u>	<u>3,644,864</u>	<u>318,454</u>
320 Licenses and permits	<u>16,100</u>	<u>16,100</u>	<u>28,026</u>	<u>11,926</u>
330 Intergovernmental revenue				
331 Federal grants	387,000	387,000	323,388	(63,612)
334 State grants	24,500	24,500	2,349	(22,151)
335 State shared revenue				
335.01 Bank franchise tax	9,000	9,000	10,228	1,228
335.02 Motor vehicle commercial prorata	7,400	7,400	7,646	246
335.03 Liquor tax reversion	21,000	21,000	23,209	2,209
335.04 Motor vehicle licenses (5%)	36,000	36,000	39,096	3,096
335.08 Local government highway and bridge fund	77,000	77,000	79,198	2,198
335.20 Other	-	-	288	288
338 County shared revenue				
338.01 County road tax (25%)	7,665	7,665	7,665	-
338.02 County road and bridge tax (25%)	-	-	10,719	10,719
339 Other governmental revenue	<u>140,000</u>	<u>140,000</u>	<u>125,000</u>	<u>(15,000)</u>
Total intergovernmental revenue	<u>709,565</u>	<u>709,565</u>	<u>628,786</u>	<u>(80,779)</u>
340 Charges for good and services				
341 General government	1,600	1,600	2,976	1,376
342 Public safety	3,010	3,010	3,282	272
344 Sanitation	21,000	21,000	60,320	39,320
346 Culture and recreation	22	22	7,199	7,177
348 Cemetery	15,000	15,000	17,600	2,600
349 Other (airport)	<u>54,600</u>	<u>54,600</u>	<u>52,789</u>	<u>(1,811)</u>
Total charges for goods and services	<u>95,232</u>	<u>95,232</u>	<u>144,166</u>	<u>48,934</u>
350 Fines and forfeits				
351 Court fines and costs	10	10	16	6
352 Animal control fines	350	350	502	152
359 Other	<u>1,200</u>	<u>1,200</u>	<u>1,013</u>	<u>(187)</u>
Total fines and forfeits	<u>1,560</u>	<u>1,560</u>	<u>1,531</u>	<u>(29)</u>
360 Miscellaneous revenue				
361 Investment earnings	5,000	5,000	10,820	5,820
362 Rentals	1,550	1,550	1,550	-
367 Contributions and donations from private sources	510	510	2,485	1,975
369 Other	<u>35,000</u>	<u>35,000</u>	<u>32,625</u>	<u>(2,375)</u>
Total miscellaneous revenue	<u>42,060</u>	<u>42,060</u>	<u>47,480</u>	<u>5,420</u>
Total revenues	<u>4,190,927</u>	<u>4,190,927</u>	<u>4,494,853</u>	<u>303,926</u>

City of Milbank
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	46,950	47,950	45,341	2,609
411.5 Contingency	100,000	100,000		
Amount transferred	-	(13,000)	-	87,000
414 Financial administration	405,800	412,800	372,852	39,948
Total general government	552,750	547,750	418,193	129,557
420 Public safety				
421 Police	616,900	621,900	567,301	54,599
422 Fire	191,920	194,920	174,709	20,211
Total public safety	808,820	816,820	742,010	74,810
430 Public works				
431 Highways and streets	1,691,024	1,691,024	1,209,091	481,933
432 Sanitation	40,405	40,405	41,345	(940)
435 Airport	456,400	456,400	286,547	169,853
Total public works	2,187,829	2,187,829	1,536,983	650,846
450 Culture and recreation				
452 Parks	797,600	797,600	708,969	88,631
Total culture and recreation	797,600	797,600	708,969	88,631
470 Debt service	212,515	2,097,515	2,097,315	200
Total expenditures	4,559,514	6,447,514	5,503,470	944,044
Excess of Revenue over (under) Expenditures	(368,587)	(2,256,587)	(1,008,617)	1,247,970
Other Financing Sources				
391.01 Transfers in	145,000	145,000	145,000	-
391.03 Sale of municipal property	100	100	2,520	2,420
391.04 Compensation for loss/damage to capital assets	-	-	18,619	18,619
391.2 Long-term debt issued	-	-	1,675,600	1,675,600
Total other financing sources	145,100	145,100	1,841,739	1,696,639
Net Change in Fund Balance	(223,487)	(2,111,487)	833,122	2,944,609
Fund Balance - Beginning	1,040,383	1,040,383	1,040,383	-
Fund Balance - Ending	\$ 816,896	\$ (1,071,104)	\$ 1,873,505	\$ 2,944,609

City of Milbank
 Budgetary Comparison Schedule—3rd Penny Sales Tax Fund
 Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 110,000	\$ 110,000	\$ 113,450	\$ 3,450
Total taxes	110,000	110,000	113,450	3,450
360 Miscellaneous revenue				
361 Investment earnings	300	300	347	47
Total miscellaneous revenue	300	300	347	47
Total revenue	110,300	110,300	113,797	3,497
Expenditures				
460 Conservation and development				
465 Economic development and assistance (industrial development)	183,773	183,773	140,605	43,168
Total expenditures	183,773	183,773	140,605	43,168
Net Change in Fund Balance	(73,473)	(73,473)	(26,808)	46,665
Fund Balance - Beginning	82,699	82,699	82,699	-
Fund Balance - Ending	\$ 9,226	\$ 9,226	\$ 55,891	\$ 46,665

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 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, 2020.

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 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 Proportionate Share of the Net Pension Liability (Asset) and Pension Contributions

Changes from Prior Valuation

The June 30, 2020 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

Benefit Provision Changes

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020, and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if Members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

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 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that, if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2019, and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019, and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% 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 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 Milbank
Milbank, 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 Milbank as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated December 13, 2021. In our report, we issued an adverse opinion on the discretely presented component unit because the statements included only the primary government and not the City’s legally separate component unit. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2020-001, that we consider to be a significant deficiency.

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 Milbank's Response to Finding

The City's response to the finding identified in our audit is 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 it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Sallly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
December 13, 2021

Findings Related to the Financial Statements

Finding 2020-001 - Financial Statements and Footnotes are Prepared by the Auditor

Criteria: The City of Milbank's internal control structure should be designed to provide for the preparation of the financial statements and footnotes in accordance with the modified cash basis of accounting.

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes which could cause the need for auditors to, at times, propose journal entries and assist in this process.

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 an organization 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 basis of accounting described in Note 1 has been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.