

**MUNICIPALITY OF SPENCER  
SPENCER, SOUTH DAKOTA**

**AUDIT REPORT**

**FOR THE YEAR JANUARY 1, 2020 TO DECEMBER 31, 2020**

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF SPENCER

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MUNICIPAL OFFICIALS  
DECEMBER 31, 2020

GOVERNING BOARD:

Donna Ruden – President  
Beverly Heidelberger – Vice-President  
Ron Rief

FINANCE OFFICER:

Kimberly Thrift

ATTORNEY:

Michael Unke

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105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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**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**

Governing Board  
Municipality of Spencer  
Spencer, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Spencer, South Dakota (Municipality), as of December 31, 2020 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated June 29, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality'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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings as item 2020-001 to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with

those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying Schedule of Current Audit Findings as item number 2020-002.

#### Municipality's Response to Findings

The Municipality's response to the findings identified in our audit is described in the accompanying Schedule of Current Audit Findings. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### Purpose of this Report

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



Schoenfish & Co., Inc.  
Certified Public Accountants  
June 29, 2022

*Schoenfish & Co., Inc.*

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

Finding Number 2011-001:

Material weaknesses in internal accounting control were noted due to the lack of segregation of duties for revenues. This comment has not been corrected and a similar comment is restated as current audit finding number 2020-001.

Finding Number 2011-002:

No budget was adopted for the General Fund. This comment has not been corrected and a similar comment is restated as current audit finding number 2020-002.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT OTHER AUDIT FINDINGS:

Internal Control Over Revenues

Finding Number 2020-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the eighth consecutive audit in which a similar comment has occurred.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

The Finance Officer processes all revenue transactions from beginning to end. The Finance Officer also receives money, issues receipts, records receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

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

Management's Response:

The Municipality of Spencer President, Donna Ruden, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Spencer, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

Compliance – Related Finding:

Finding Number 2020-02:

Expenditures exceeded the amounts budgeted in two areas in the General Fund in 2020.

Criteria:

SDCL 9-21-2 states in part, "The governing body of each municipality shall, no later than its first regular meeting in September of each year or within ten days thereafter, introduce the annual appropriation ordinance for the ensuing fiscal year, in which it shall appropriate the sums of money necessary to meet all lawful expenses and liabilities of the municipality."

Condition:

The Municipality expended money in excess of amounts budgeted without supplementing the budget as allowed by SDCL 9-21-7.

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SCHEDULE OF CURRENT AUDIT FINDINGS  
(Continued)

Effect:

Without amending or adopting the budget or limiting expenditures, expenditures are being made without proper authority.

Recommendation:

2. We recommend that the expenditures be limited to amounts budgeted or budget supplements be made in accordance with SDCL 9-21-7 to allow for expenditures.

Management's Response:

The Municipality of Spencer Mayor, Donna Ruden, is the contact person responsible for the corrective action plan for this comment. The Municipality will be more careful to follow the budgetary guidelines prescribed by law.

CLOSING CONFERENCE

The audit was discussed with the officials during the course of the audit and with the Finance Officer and Board President at the conclusion of the audit.

*Schoenfish & Co., Inc.*

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INDEPENDENT AUDITOR'S REPORT

Governing Board  
Municipality of Spencer  
Spencer, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Municipality of Spencer, South Dakota, (Municipality) as of December 31, 2020 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, the business-type activities, and each major fund of the Municipality of Spencer as of December 31, 2020 and the respective changes in financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

We draw attention to Note 1.c. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.


Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's financial statements. The Budgetary Comparison Schedules, the Schedule of the Municipal Contributions and the Long-Term Liabilities schedule listed in the Table of Contents 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2022 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.  
 Certified Public Accountants  
 June 29, 2022

*Schoenfish & Co., Inc.*

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**MUNICIPALITY OF SPENCER**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**December 31, 2020**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
<b>ASSETS:</b>			
Cash and Cash Equivalents	349,664.35	174,508.28	524,172.63
Investments	375,000.00	40,000.00	415,000.00
<b>TOTAL ASSETS</b>	<b>724,664.35</b>	<b>214,508.28</b>	<b>939,172.63</b>
<b>NET POSITION:</b>			
Restricted for:			
Debt Service Purposes		14,403.17	14,403.17
Unrestricted	724,664.35	200,105.11	924,769.46
<b>TOTAL NET POSITION</b>	<b>724,664.35</b>	<b>214,508.28</b>	<b>939,172.63</b>

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

**MUNICIPALITY OF SPENCER**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For the Year Ended December 31, 2020**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities		Total
						Governmental Activities	Business-Type Activities	
Primary Government:								
Governmental Activities:								
General Government	37,047.82	3,385.00	2,310.03		(31,352.79)			(31,352.79)
Public Safety	25,321.58				(25,321.58)			(25,321.58)
Public Works	29,826.83	13,756.10	24,124.91		8,054.18			8,054.18
Culture and Recreation	46,779.83				(46,779.83)			(46,779.83)
<b>Total Governmental Activities</b>	<b>138,976.06</b>	<b>17,141.10</b>	<b>26,434.94</b>	<b>0.00</b>	<b>(95,400.02)</b>			<b>(95,400.02)</b>
Business-type Activities:								
Water	21,979.51	23,206.54				1,227.03		1,227.03
Sewer	22,832.66	16,700.10	31,399.99			25,267.43		25,267.43
Coffee Shop	6,100.90	7,885.93				1,785.03		1,785.03
Events Center	2,455.77	800.00				(1,655.77)		(1,655.77)
<b>Total Business-Type Activities</b>	<b>53,368.84</b>	<b>48,592.57</b>	<b>31,399.99</b>	<b>0.00</b>		<b>26,623.72</b>		<b>26,623.72</b>
<b>Total Primary Government</b>	<b>192,344.90</b>	<b>65,733.67</b>	<b>57,834.93</b>	<b>0.00</b>	<b>(95,400.02)</b>	<b>26,623.72</b>		<b>(68,776.30)</b>
<b>General Revenues:</b>								
Taxes:								
Property Taxes					73,932.84			73,932.84
Sales Taxes					25,847.85			25,847.85
State Shared Revenues					1,451.33			1,451.33
Unrestricted Investment Earnings					9,881.97	122.54		10,004.51
Miscellaneous Revenue					4,308.59			4,308.59
<b>Total General Revenues and Debt Issued</b>					<b>115,422.58</b>	<b>122.54</b>		<b>115,545.12</b>
<b>Change in Net Position</b>					<b>20,022.56</b>	<b>26,746.26</b>		<b>46,768.82</b>
<b>Net Position - Beginning</b>					<b>704,641.79</b>	<b>187,762.02</b>		<b>892,403.81</b>
<b>NET POSITION-BEGINNING</b>					<b>724,664.35</b>	<b>214,508.28</b>		<b>939,172.63</b>

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

**MUNICIPALITY OF SPENCER  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2020**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>		
Cash and Cash Equivalents	<u>349,664.35</u>	<u>349,664.35</u>
Investments	<u>375,000.00</u>	<u>375,000.00</u>
<b>TOTAL ASSETS</b>	<u><u>724,664.35</u></u>	<u><u>724,664.35</u></u>
<b>FUND BALANCES:</b>		
Assigned for Beautification/Promotion	<u>848.19</u>	<u>848.19</u>
Unassigned	<u>723,816.16</u>	<u>723,816.16</u>
<b>TOTAL FUND BALANCES</b>	<u><u>724,664.35</u></u>	<u><u>724,664.35</u></u>

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

**MUNICIPALITY OF SPENCER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2020**

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>		
Taxes:		
General Property Taxes	73,244.51	73,244.51
General Sales and Use Taxes	25,847.85	25,847.85
Tax Deed Revenue	71.81	71.81
Penalties & Interest on Delinquent Taxes	616.52	616.52
Total Taxes	99,780.69	99,780.69
Licenses and Permits	210.00	210.00
Intergovernmental Revenue:		
Federal Grants	2,310.03	2,310.03
State Grants	1,037.00	1,037.00
State Shared Revenue:		
Bank Franchise Tax	385.37	385.37
Motor Vehicle Commercial Prorate	1,264.81	1,264.81
Motor Vehicle Licenses	6,979.87	6,979.87
Liquor License Reversion	1,065.96	1,065.96
Local Government Highway and Bridge Fund	11,955.93	11,955.93
County Shared Revenue:		
County Road Tax	326.19	326.19
County Wheel Tax	2,561.11	2,561.11
Total Intergovernmental Revenue	27,886.27	27,886.27
Charges for Goods and Services:		
Sanitation	13,756.10	13,756.10
Total Charges for Goods and Services	13,756.10	13,756.10
Miscellaneous Revenue:		
Investment Earnings	9,881.97	9,881.97
Rentals	3,175.00	3,175.00
Other	4,308.59	4,308.59
Total Miscellaneous Revenue	17,365.56	17,365.56
Total Revenue	158,998.62	158,998.62

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

**MUNICIPALITY OF SPENCER**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2020**

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>Expenditures:</b>		
General Government:		
Legislative	7,055.96	7,055.96
Financial Administration	13,657.91	13,657.91
Other	16,333.95	16,333.95
Total General Government	37,047.82	37,047.82
Public Safety:		
Police	4,277.76	4,277.76
Fire	21,043.82	21,043.82
Total Public Safety	25,321.58	25,321.58
Public Works:		
Highways and Streets	16,674.83	16,674.83
Sanitation	13,152.00	13,152.00
Total Public Works	29,826.83	29,826.83
Culture and Recreation:		
Parks	46,779.83	46,779.83
Total Culture and Recreation	46,779.83	46,779.83
Total Expenditures	138,976.06	138,976.06
Net Change in Fund Balance	20,022.56	20,022.56
Fund Balance - Beginning	704,641.79	704,641.79
FUND BALANCE - ENDING	724,664.35	724,664.35

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

**MUNICIPALITY OF SPENCER  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
December 31, 2020**

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Coffe Shop Fund	Events Center Fund	
<b>ASSETS:</b>					
Current Assets:					
Cash and Cash Equivalents	43,429.42	51,213.97	70,720.49	9,144.40	174,508.28
Investments	20,000.00	20,000.00			40,000.00
Total Current Assets	<u>63,429.42</u>	<u>71,213.97</u>	<u>70,720.49</u>	<u>9,144.40</u>	<u>214,508.28</u>
<b>TOTAL ASSETS</b>	<u>63,429.42</u>	<u>71,213.97</u>	<u>70,720.49</u>	<u>9,144.40</u>	<u>214,508.28</u>
<b>NET POSITION:</b>					
Restricted for:					
Debt Service Purposes		14,403.17			14,403.17
Unrestricted	<u>63,429.42</u>	<u>56,810.80</u>	<u>70,720.49</u>	<u>9,144.40</u>	<u>200,105.11</u>
<b>TOTAL NET POSITION</b>	<u>63,429.42</u>	<u>71,213.97</u>	<u>70,720.49</u>	<u>9,144.40</u>	<u>214,508.28</u>

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



**MUNICIPALITY OF SPENCER**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**FUND NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**

For the Year Ended December 31, 2020

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Coffee Shop Fund	Events Center Fund	
<b>Operating Revenue:</b>					
Charges for Goods and Services	23,206.54	9,108.06	7,885.93	800.00	41,000.53
Revenue Dedicated to Servicing Debt	7,592.04				7,592.04
<b>Total Operating Revenue</b>	<b>23,206.54</b>	<b>16,700.10</b>	<b>7,885.93</b>	<b>800.00</b>	<b>48,592.57</b>
<b>Operating Expenses:</b>					
Personal Services	2,047.01	4,848.80			6,895.81
Other Current Expense	19,932.50	11,175.66	6,100.90	2,455.77	39,664.83
Total Operating Expenses	21,979.51	16,024.46	6,100.90	2,455.77	46,560.64
Operating Income (Loss)	1,227.03	675.64	1,785.03	(1,655.77)	2,031.93
<b>Nonoperating Revenue (Expense):</b>					
Investment Earnings			122.54		122.54
Debt Service (Principal)		(3,381.07)			(3,381.07)
Interest Expense		(3,427.13)			(3,427.13)
Total Nonoperating Revenue (Expense)	0.00	(6,808.20)	122.54	0.00	(6,685.66)
Income (Loss) Before Contributions	1,227.03	(6,132.56)	1,907.57	(1,655.77)	(4,653.73)
Capital Contributions		31,399.99			31,399.99
Change in Net Position	1,227.03	25,267.43	1,907.57	(1,655.77)	26,746.26
Net Position - Beginning	62,202.39	45,946.54	68,812.92	10,800.17	187,762.02
<b>NET POSITION - ENDING</b>	<b>63,429.42</b>	<b>71,213.97</b>	<b>70,720.49</b>	<b>9,144.40</b>	<b>214,508.28</b>

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

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

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

b. Basis of Presentation:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, 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 Municipality or it meets the following criteria:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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

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

Governmental Funds:

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

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund - financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (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.

Coffee Shop Fund - financed primarily by user charges, this fund accounts for the income and expenses from the operation of a municipal coffee shop. This is a major fund.

Events Center Fund - financed primarily by user charges, this fund accounts for the operation of the municipal events center and related facilities. This is a major fund.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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.

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned, and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

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 used, applied with the limitations of the modified cash basis of accounting.

Basis of Accounting:

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed, and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

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

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

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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 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. 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. Under the modified cash basis of accounting, all long-term debts arising from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the respective columns on the government-wide financial statements.

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. 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.

f. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, 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.

g. 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 and expenses.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

h. Equity Classifications:

Government-wide Statements:

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

1. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as 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" or "net investment in capital assets."

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.

i. Application of Net Position:

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

j. Fund Balance Classification Policies and Procedures:

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

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Finance Officer.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

**Deposits** - The Municipality's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**Investments** – In general, SDCL 4-5-6 permit Municipality funds to be invited only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shared 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, 2020, the Municipality did not have any investments. The investments reported in the financial statements consist of certificates of deposit.

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

**Concentration of Credit Risk** – The Municipality places no limit on the amount that may be invested in any one issuer.

**Interest Rate Risk** – The Municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Assignment of Investment Income** – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality's policy is to credit all income from deposits and investments to the fund making the investment.

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

4. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS:

The Municipality is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	<u>Year Ended</u> <u>12/31/2020</u>
General Fund:	
Activity:	
Financial Administration	\$ 3,261.91
Fire	\$ 19,003.82

The Municipality plans to take the following actions to address these violations: use supplemental budgets when legal authority allows.

5. SIGNIFICANT CONTINGENCIES - LITIGATION

At December 31, 2020, the Municipality was not involved in any significant litigation.

6. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2020, the Municipality managed its risks as follows:

Liability Insurance:

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

Workmen's Compensation:

The Municipality purchases liability insurance for workmen's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

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

7. RELATED PARTY DISCLOSURE

The Municipality Board President and Maintenance man are husband and wife.

8. SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through June 29, 2022, the date on which the financial statements were available to be issued.



**SUPPLEMENTARY INFORMATION  
MUNICIPALITY OF SPENCER  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended December 31, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Taxes:				
General Property Taxes	76,500.00	76,500.00	73,244.51	(3,255.49)
General Sales and Use Taxes	16,320.00	16,320.00	25,847.85	9,527.85
Tax Deed Revenue	0.00	0.00	71.81	71.81
Penalties & Interest on Delinquent Taxes	0.00	0.00	616.52	616.52
<b>Total Taxes</b>	<b>92,820.00</b>	<b>92,820.00</b>	<b>99,780.69</b>	<b>6,960.69</b>
Licenses and Permits	404.00	404.00	210.00	(194.00)
Intergovernmental Revenue:				
Federal Grants	0.00	0.00	2,310.03	2,310.03
State Grants	0.00	0.00	1,037.00	1,037.00
State Shared Revenue:				
Bank Franchise Tax	350.00	350.00	385.37	35.37
Motor Vehicle Commercial Prorate	1,200.00	1,200.00	1,264.81	64.81
Motor Vehicle Licenses	6,100.00	6,100.00	6,979.87	879.87
Liquor License Reversion	900.00	900.00	1,065.96	165.96
Local Government Highway and Bridge Fund	11,220.00	11,220.00	11,955.93	735.93
County Shared Revenue:				
County Road Tax	300.00	300.00	326.19	26.19
County Wheel Tax	2,040.00	2,040.00	2,561.11	521.11
<b>Total Intergovernmental Revenue</b>	<b>22,110.00</b>	<b>22,110.00</b>	<b>27,886.27</b>	<b>5,776.27</b>
Charges for Goods and Services:				
Public Works	102.00	102.00	0.00	(102.00)
Sanitation	14,000.00	14,000.00	13,756.10	(243.90)
<b>Total Charges for Goods &amp; Services</b>	<b>14,102.00</b>	<b>14,102.00</b>	<b>13,756.10</b>	<b>(345.90)</b>
Miscellaneous Revenue:				
Investment Earnings	6,500.00	6,500.00	9,881.97	3,381.97
Rentals	3,000.00	3,000.00	3,175.00	175.00
Other	2,600.00	2,600.00	4,308.59	1,708.59
<b>Total Miscellaneous Revenue</b>	<b>12,100.00</b>	<b>12,100.00</b>	<b>17,365.56</b>	<b>5,265.56</b>
<b>Total Revenue</b>	<b>141,536.00</b>	<b>141,536.00</b>	<b>158,998.62</b>	<b>17,462.62</b>

**SUPPLEMENTARY INFORMATION  
MUNICIPALITY OF SPENCER  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended December 31, 2020**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>Expenditures:</b>				
General Government:				
Legislative	9,916.00	9,916.00	7,055.96	2,860.04
Financial Administration	10,396.00	10,396.00	13,657.91	(3,261.91)
Other	21,140.00	21,140.00	16,333.95	4,806.05
Total General Government	41,452.00	41,452.00	37,047.82	4,404.18
Public Safety:				
Police	4,309.50	4,309.50	4,277.76	31.74
Fire	2,040.00	2,040.00	21,043.82	(19,003.82)
Total Public Safety	6,349.50	6,349.50	25,321.58	(18,972.08)
Public Works:				
Highways and Streets	67,288.50	67,288.50	16,674.83	50,613.67
Sanitation	14,280.00	14,280.00	13,152.00	1,128.00
Total Public Works	81,568.50	81,568.50	29,826.83	51,741.67
Culture and Recreation:				
Parks	48,566.00	48,566.00	46,779.83	1,786.17
Total Culture and Recreation	48,566.00	48,566.00	46,779.83	1,786.17
Total Expenditures	177,936.00	177,936.00	138,976.06	38,959.94
Excess of Revenue Over (Under) Expenditures	(36,400.00)	(36,400.00)	20,022.56	56,422.56
Net Change in Fund Balances	(36,400.00)	(36,400.00)	20,022.56	56,422.56
Fund Balance - Beginning	704,641.79	704,641.79	704,641.79	0.00
FUND BALANCE - ENDING	668,241.79	668,241.79	724,664.35	56,422.56

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NOTES TO THE SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund  
and for each major Special Revenue Fund with a legally required budget.

NOTE 1. Budgets and Budgetary Accounting:

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual 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 five percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected appropriations lapse at year end unless encumbered by resolution of the Governing Board.

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 and special revenue funds.

The Municipality 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.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the modified cash basis of accounting.

NOTE 2. GAAP/Budgetary Accounting Basis Differences

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a modified cash basis. Utilizing the modified cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

SUPPLEMENTARY INFORMATION

LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance 01/01/20	Additions	Deletions	Ending Balance 12/31/20	Due Within One Year
Primary Government:					
Business-Type Activities					
Bonds Payable:					
Clean Water #1 SRF Loan	106,709.42		3,380.93	103,328.49	2,608.60
Total Business-Type Activities	<u>106,709.42</u>	<u>0.00</u>	<u>3,380.93</u>	<u>103,328.49</u>	<u>2,608.60</u>
TOTAL PRIMARY GOVERNMENT	<u>106,709.42</u>	<u>0.00</u>	<u>3,380.93</u>	<u>103,328.49</u>	<u>2,608.60</u>

Debt payable at December 31, 2020 is comprised of the following:

Clean Water #1 SRF Loan,	\$ 103,328.49
Maturity Date: January 15, 2042	
Interest Rate 3.25%,	
Payable from Sewer Fund	

The annual requirements to amortize all debt outstanding as of December 31, 2020, including interest payments, are as follows:

Year Ending Dec. 31,	Clean Water SRF Revenue Bonds	
	Principal	Interest
2021	2,608.60	2,497.55
2022	3,578.12	3,230.08
2023	3,695.84	3,112.36
2024	3,817.42	2,990.78
2025	3,943.01	2,865.19
2026-2030	21,748.30	12,292.70
2031-2035	25,568.96	8,472.04
2036-2040	30,060.82	3,980.18
2041-2045	8,307.42	202.83
Totals	<u>103,328.49</u>	<u>39,643.71</u>