



Financial Statements
December 31, 2020
City of Waubay

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MayorKevin Jens

Governing Board Roger Johanning
Robert Grebel
Eric Niles
Kathy Breske
Douglas Herold

Finance OfficerJulie Jorgenson

AttorneyTom Sannes



Independent Auditor's Report

The City Council
City of Waubay
Waubay, 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 Waubay (the City) 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 circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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.

Opinions

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The listing of municipal officials, schedules of employer's share of net pension liability (asset) and pension contributions, budgetary comparison schedule, and long-term debt schedule are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of net pension liability (asset) and pension contributions, budgetary comparison schedule and schedule of long-term debt are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements as a whole.

The listing of municipal officers 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 September 27, 2021, on our consideration of the City of Waubay's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Aberdeen, South Dakota
September 27, 2021

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 906,529	\$ 486,377	\$ 1,392,906
Total current assets	906,529	486,377	1,392,906
Noncurrent assets			
Restricted cash and cash equivalents	1,377,826	125,171	1,502,997
Total noncurrent assets	1,377,826	125,171	1,502,997
	<u>\$ 2,284,355</u>	<u>\$ 611,548</u>	<u>\$ 2,895,903</u>
Net Position			
Restricted for			
Library	\$ 15,284	\$ -	\$ 15,284
Grant (HMGP) expenses	1,362,542	-	1,362,542
Debt service	-	63,996	63,996
Equipment repair or replacement	-	28,049	28,049
Operations and future projects	37,714	33,126	70,840
Unrestricted	868,815	486,377	1,355,192
	<u>\$ 2,284,355</u>	<u>\$ 611,548</u>	<u>\$ 2,895,903</u>

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue 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	\$ 93,550	\$ 8,387	\$ -	\$ -	\$ (85,163)	\$ -	\$ (85,163)
Public safety	18,082	-	-	1,378,589	1,360,507	-	1,360,507
Public works	207,237	-	63,927	-	(143,310)	-	(143,310)
Health and welfare	3,285	-	-	-	(3,285)	-	(3,285)
Culture and recreation	39,354	-	-	-	(39,354)	-	(39,354)
Conservation and development	1,850	-	-	-	(1,850)	-	(1,850)
Miscellaneous expenditures	85	-	-	-	(85)	-	(85)
Debt service	4,344	-	-	-	(4,344)	-	(4,344)
Total governmental activities	<u>367,787</u>	<u>8,387</u>	<u>63,927</u>	<u>1,378,589</u>	<u>1,083,116</u>	<u>-</u>	<u>1,083,116</u>
Business-type activities							
Water	105,211	111,536	-	-	-	6,325	6,325
Sewer	338,795	147,563	39,386	123,329	-	(28,517)	(28,517)
Total business-type activities	<u>444,006</u>	<u>259,099</u>	<u>39,386</u>	<u>123,329</u>	<u>-</u>	<u>(22,192)</u>	<u>(22,192)</u>
	<u>\$ 811,793</u>	<u>\$ 267,486</u>	<u>\$ 103,313</u>	<u>\$ 1,501,918</u>	<u>1,083,116</u>	<u>(22,192)</u>	<u>1,060,924</u>
General Revenues							
Taxes							
Property taxes					133,562	-	133,562
Sales taxes					189,692	-	189,692
State shared revenues					6,806	-	6,806
Unrestricted investing earnings					4,086	1,489	5,575
Miscellaneous revenue					75,586	-	75,586
Sale of municipal property					523	-	523
Total general revenues					<u>410,255</u>	<u>1,489</u>	<u>411,744</u>
Change in Net Position					1,493,371	(20,703)	1,472,668
Net Position, Beginning					790,984	632,251	1,423,235
Net Position, Ending					<u>\$ 2,284,355</u>	<u>\$ 611,548</u>	<u>\$ 2,895,903</u>

See Notes to Financial Statements

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

	General Fund	Capital Project Fund	Total
Assets			
Cash and cash equivalents	\$ 868,815	\$ 37,714	\$ 906,529
Restricted cash	1,377,826	-	1,377,826
	<u>\$ 2,246,641</u>	<u>\$ 37,714</u>	<u>\$ 2,284,355</u>
Fund Balances			
264 Restricted for			
Library	\$ 15,284	\$ -	\$ 15,284
Capital Projects	-	37,714	37,714
Grant (HGMP) expenses	1,362,542	-	1,362,542
267 Unassigned	868,815	-	868,815
	<u>2,246,641</u>	<u>37,714</u>	<u>2,284,355</u>
Total fund balances	<u>\$ 2,246,641</u>	<u>\$ 37,714</u>	<u>\$ 2,284,355</u>

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

	General Fund	Capital Project Fund	Total
Revenues			
310 Taxes			
311 General property taxes	\$ 133,322	\$ -	\$ 133,322
313 General sales and use taxes	189,692	-	189,692
315 Amusement taxes	240	-	240
Total taxes	<u>323,254</u>	<u>-</u>	<u>323,254</u>
320 Licenses and permits	<u>1,835</u>	<u>-</u>	<u>1,835</u>
330 Intergovernmental revenue			
331 Federal grants	1,378,589		1,378,589
335 State shared revenue			
335.01 Bank franchise tax	978	-	978
335.02 Motor vehicle commercial prorate	3,156	-	3,156
335.03 Liquor tax reversion	3,987	-	3,987
335.04 Motor vehicle licenses (5%)	13,473	-	13,473
335.08 Local government highway and bridge fund	35,644	-	35,644
338 County shared revenue			
338.01 County road tax (25%)	1,066	-	1,066
338.02 County HBR tax (25%)	5,837	-	5,837
338.03 County wheel tax	4,751	-	4,751
339 Other intergovernmental revenues	<u>1,841</u>	<u>-</u>	<u>1,841</u>
Total intergovernmental revenue	<u>1,449,322</u>	<u>-</u>	<u>1,449,322</u>
340 Charges for goods and services			
341 General government	<u>6,552</u>	<u>-</u>	<u>6,552</u>
Total charges for goods and services	<u>6,552</u>	<u>-</u>	<u>6,552</u>
360 Miscellaneous revenue			
361 Investment earnings	4,086	-	4,086
368 Liquor operating agreement income	23,871	-	23,871
369 Other	<u>10,515</u>	<u>41,200</u>	<u>51,715</u>
Total miscellaneous revenue	<u>38,472</u>	<u>41,200</u>	<u>79,672</u>
Total revenues	<u>1,819,435</u>	<u>41,200</u>	<u>1,860,635</u>

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

	General Fund	Capital Project Fund	Total
Expenditures			
410 General government			
414 Financial administration	93,550	-	93,550
Total general government	93,550	-	93,550
420 Public safety			
422 Fire	14,596	-	14,596
Total public safety	14,596	-	14,596
430 Public works			
431 Highway and streets	150,834	-	150,834
437 Cemetery	10,803	-	10,803
435 Other public works	600	-	600
Total public works	162,237	-	162,237
440 Health and welfare			
441 Health	3,285	-	3,285
Total health and welfare	3,285	-	3,285
450 Culture and recreation			
451 Recreation	39,354	-	39,354
Total culture and recreation	39,354	-	39,354
460 Conservation and development			
465 Economic development and assistance (industrial development)	1,850	-	1,850
Total conservation and development	1,850	-	1,850
470 Debt service			
Principal	1,805	-	1,805
Interest	2,539	-	2,539
Total debt service	4,344	-	4,344
485 Capital outlay	45,000	3,486	48,486

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

	General Fund	Capital Project Fund	Total
490 Miscellaneous			
492 Other expenditures	85	-	85
Total miscellaneous	85	-	85
Total expenditures	364,301	3,486	367,787
Other Financing Source (Use)			
391.03 Sale of municipal property	523	-	523
Total other financing source	523	-	523
Net Change in Fund Balance	1,455,657	37,714	1,493,371
Fund Balance, Beginning	790,984	-	790,984
Fund Balance, Ending	<u>\$ 2,246,641</u>	<u>\$ 37,714</u>	<u>\$ 2,284,355</u>

City of Waubay
Balance Sheet—Modified Cash Basis—Proprietary Funds
December 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 134,711	\$ 351,666	\$ 486,377
Total current assets	<u>134,711</u>	<u>351,666</u>	<u>486,377</u>
Noncurrent assets			
Restricted cash and cash equivalents	<u>37,475</u>	<u>87,696</u>	<u>125,171</u>
Total noncurrent assets	<u>37,475</u>	<u>87,696</u>	<u>125,171</u>
Total assets	<u>\$ 172,186</u>	<u>\$ 439,362</u>	<u>\$ 611,548</u>
Net Position			
253.20 Restricted for			
253.21 Debt service	15,408	48,588	63,996
253.26 Equipment repair or replacement	5,504	22,545	28,049
253.29 Operations and future projects	16,563	16,563	33,126
253.90 Unrestricted	<u>134,711</u>	<u>351,666</u>	<u>486,377</u>
Total net position	<u>172,186</u>	<u>439,362</u>	<u>611,548</u>
	<u>\$ 172,186</u>	<u>\$ 439,362</u>	<u>\$ 611,548</u>

City of Waubay

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

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenue			
380 Charges for goods and services	\$ 111,536	\$ 147,563	\$ 259,099
Total operating revenue	<u>111,536</u>	<u>147,563</u>	<u>259,099</u>
Operating Expenses			
410 Personal services	19,758	22,913	42,671
420 Other current expenses	25,072	15,310	40,382
426 Supplies and materials	11,084	28,434	39,518
430 Capital assets	-	162,715	162,715
Total operating expenses	<u>55,914</u>	<u>229,372</u>	<u>285,286</u>
Operating Income (Loss)	<u>55,622</u>	<u>(81,809)</u>	<u>(26,187)</u>
Nonoperating Revenue (Expense)			
330 Operating grants	-	39,386	39,386
361 Investment earnings	19	1,470	1,489
440 Debt service principal	(29,058)	(28,885)	(57,943)
441 Interest expense	(20,239)	(80,538)	(100,777)
391.02 Debt issued	-	123,329	123,329
Total nonoperating revenue (expense)	<u>(49,278)</u>	<u>54,762</u>	<u>5,484</u>
Change in Net Position	6,344	(27,047)	(20,703)
Net Position, Beginning	<u>165,842</u>	<u>466,409</u>	<u>632,251</u>
Net Position, Ending	<u>\$ 172,186</u>	<u>\$ 439,362</u>	<u>\$ 611,548</u>

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

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 111,536	\$ 147,563	\$ 259,099
Payments to suppliers	(36,156)	(43,744)	(79,900)
Payments to employees	(19,758)	(22,913)	(42,671)
Net Cash from Operating Activities	<u>55,622</u>	<u>80,906</u>	<u>136,528</u>
Cash Flows from (used for) Noncapital Financing Activities			
Operating grants	-	39,386	39,386
Cash Flows from (used for) Capital and Related Financing Activities			
Purchase of capital assets	-	(162,715)	(162,715)
Principal paid on capital debt	(29,058)	(28,885)	(57,943)
Proceeds from long-term debt	-	123,329	123,329
Interest paid on capital debt	(20,239)	(80,538)	(100,777)
Net Cash used for Capital and Related Financing Activities	<u>(49,297)</u>	<u>(148,809)</u>	<u>(198,106)</u>
Cash Flows from Investing Activities			
Cash received for interest	19	1,470	1,489
Net Cash from Investing Activities	<u>19</u>	<u>1,470</u>	<u>1,489</u>
Net Change in Cash and Cash Equivalents	6,344	(27,047)	(20,703)
Cash and Cash Equivalents, Beginning	<u>165,842</u>	<u>466,409</u>	<u>632,251</u>
Cash and Cash Equivalents, Ending	<u>\$ 172,186</u>	<u>\$ 439,362</u>	<u>\$ 611,548</u>
Cash and Cash Equivalents Consist of			
Cash and cash equivalents	\$ 134,711	\$ 351,666	\$ 486,377
Restricted cash and cash equivalents	37,475	87,696	125,171
	<u>\$ 172,186</u>	<u>\$ 439,362</u>	<u>\$ 611,548</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income (loss)	\$ 55,622	\$ (81,809)	\$ (26,187)
Adjustments to reconcile operating income (loss) to Net cash from operating activities			
Purchase of capital assets	-	162,715	162,715
Net Cash from Operating Activities	<u>\$ 55,622</u>	<u>\$ 80,906</u>	<u>\$ 136,528</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 Waubay (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, 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 City's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, the City of Waubay.

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.

Based upon the application of these criteria, the City does not have any component units.

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 except for fiduciary. 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.
- 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.
- 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 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.

Capital Project Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

- **Capital Projects Fund** – To account for financial resources to be used for the construction of the Storm Shelter. This is a major fund.

Proprietary Funds

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

- **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 including capital asset expenses specific to the systems used to deliver the services. 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 assets at cost and inter-fund advances and borrowings 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 adjustments to fair value.

D. Deposits

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts, including restricted cash, and certificates of deposit. Investments in open-end mutual fund shares or similar investments in external investment pools are also considered to be cash equivalents.

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

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

H. Program Revenues

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

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

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statement of revenues, expenses and changes in fund net position, revenues and expenses are classified 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 and sewer funds 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 two components: 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/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 fund balance when expenditures are made.

M. Fund Balance Classification Policies and Procedures

The following classifications describe the relative strength of the spending constraints placed on the government's fund balances:

- 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 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 its 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)	\$ 500,000
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	2,398,613
Total deposits	\$ 2,898,613

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

Cash and cash equivalents	\$ 2,895,903
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Investments

As of December 31, 2020, the City did not hold any investments. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk, or credit risk. Under the modified cash basis of accounting, investments are stated at cost.

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	Statute	\$ 15,284
General Fund	Contractual	1,362,542
Capital Project Fund	Contractual	37,714
Sewer Fund	Contractual	87,696
Water Fund	Contractual	37,475

Note 5 - Retirement Plan

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer, hybrid defined benefit plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in 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, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

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 than or equal to the accrued liabilities.

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established by, and may be amended by, the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6.0% of salary; Class B judicial members, 9.0% of salary; and Class B public safety members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contributions. The City's share of contributions to the SDRS for the years ended December 31, 2020, 2019, and 2018, were \$6,003, \$6,271, and \$5,597, respectively, equal to the required contributions each year.

Pension Liability (Asset), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

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 the South Dakota Retirement System for the City as of the measurement period ending June 30, 2020, and reported by the City as of December 31, 2020, is as follows:

	2020
Proportionate share of total pension liability	\$ 601,410
Less proportionate share of net position restricted for pension benefits	601,622
Proportionate share of net pension liability (asset)	\$ (212)

At December 31, 2020, the City disclosed a liability (asset) of (\$212) for its proportionate share of the net pension liability (asset). 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 0.00489%, which was an increase of 0.00013% from its proportion measured as of June 30, 2019, of 0.00476%. The City's proportionate share net pension liability (asset) is not reported in financial statements shown under 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%
	100.0%	

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 employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension 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) as of December 31, 2020, calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 82,425	\$ (212)	\$ (67,808)

Pension Plan Fiduciary Net Position

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

Note 6 - 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 joined the South Dakota Municipal League Health Pool of South Dakota in 2017. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes an unlimited lifetime maximum payment per person.

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

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and to 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, official's liability and automobile 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 \$28,405, which was an increase of \$562 from the previous year.

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

Coverage	Deductible
Officials liability	\$ -
General liability	-
Automobile liability	-

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 objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of workers’ compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City’s responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the Fund to resolve any workers’ compensation claims. The City pays an annual premium to provide workers’ compensation coverage for its employees under a self-funded program, and the premiums are accrued based on the ultimate cost of the experience-to-date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits

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

During the year ended December 31, 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 7 - Commitments and Contingencies

The City has been impacted by the effects of the world-wide coronavirus pandemic. The City is closely monitoring its operations and capital resources and is actively working to minimize the current and future impact of this unprecedented situation.

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

Note 8 - Subsequent Events

Subsequent to year-end, the City entered into a Grant Anticipation Note with First Savings Bank in the amount of \$550,000. The note bears interest at a rate of 3.75%; payable monthly. Principal on the note is due in full by June 4, 2023. The proceeds for the note are to be used to construct a storm shelter at an estimated total cost of \$672,139; remaining funding will be the responsibility of the City.

Subsequent to year-end, the City took over ownership of the Legion building, at no cost to the City, and is currently remodeling the building. Total costs for remodeling the building subsequent to year-end were approximately \$50,000, with additional expenses expected of approximately \$30,000.



Supplementary Information
December 31, 2020

City of Waubay

City of Waubay

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

Pension Plan	Fiscal Year Ending	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SDRS	6/30/2020	0.0049%	\$ (212)	\$ 107,371	-0.2%	100.04%
SDRS	6/30/2019	0.0048%	(504)	101,145	-0.5%	100.09%
SDRS	6/30/2018	0.0036%	(85)	75,371	-0.1%	100.02%
SDRS	6/30/2017	0.0031%	(277)	62,075	-0.4%	100.10%
SDRS	6/30/2016	0.0032%	10,761	60,058	17.9%	96.89%
SDRS	6/30/2015	0.3500%	(14,965)	64,422	-23.2%	104.10%

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2020	\$ 6,003	\$ 6,003	-	\$ 100,054	6.0%
SDRS	12/31/2019	6,271	6,271	-	104,530	6.0%
SDRS	12/31/2018	5,597	5,597	-	93,283	6.0%
SDRS	12/31/2017	3,768	3,768	-	62,800	6.0%
SDRS	12/31/2016	3,607	3,607	-	60,117	6.0%
SDRS	12/31/2015	3,747	3,747	-	62,450	6.0%

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

City of Waubay
Schedule of Long-Term Debt
Year Ended December 31, 2020

Indebtedness	Long-Term Debt 1/1/2020	Add New Debt	Less Debt Retired	Less Debt Forgiven	Long-Term Debt 12/31/2020
Governmental Long-Term Debt					
239.00 Other	\$ 54,278	\$ -	\$ 1,805	\$ -	\$ 52,473
Enterprise Long-Term Debt					
231.02 Revenue bonds					
Wastewater	563,451	-	17,199	-	546,252
Water	448,089	-	6,671	-	441,418
237 Other long-term debt					
Wastewater (#2)	120,573	-	3,135	-	117,438
Wastewater (#3)	816,618	123,329	8,551	42,055	889,341
Water	537,285	-	22,387	-	514,898
Total	<u>\$ 2,540,294</u>	<u>\$ 123,329</u>	<u>\$ 59,748</u>	<u>\$ 42,055</u>	<u>\$ 2,561,820</u>

City of Waubay
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	\$ 131,600	\$ 131,600	\$ 133,322	\$ 1,722
313 General sales and use taxes	120,000	120,000	189,692	69,692
315 Amusement taxes	-	-	240	240
Total taxes	<u>251,600</u>	<u>251,600</u>	<u>323,254</u>	<u>71,654</u>
320 Licenses and permits	<u>3,500</u>	<u>3,500</u>	<u>1,835</u>	<u>(1,665)</u>
330 Intergovernmental revenue				
331 Federal grants	-	6,568	1,378,589	1,372,021
335 State shared revenue				
335.01 Bank franchise tax	500	500	978	478
335.02 Motor vehicle commercial prorated	2,400	2,400	3,156	756
335.03 Liquor tax reversion	4,000	4,000	3,987	(13)
335.04 Motor vehicle licenses (5%)	5,300	5,300	13,473	8,173
335.08 Local government highway and bridge fund	22,000	22,000	35,644	13,644
338 County shared revenue				
338.01 County road tax (25%)	1,000	1,000	1,066	66
338.02 County HBR tax (25%)	1,100	1,100	5,837	4,737
338.03 County wheel tax	4,000	4,000	4,751	751
339 Other intergovernmental revenues	-	-	1,841	1,841
Total intergovernmental revenue	<u>40,300</u>	<u>46,868</u>	<u>1,449,322</u>	<u>1,402,454</u>
340 Charges for goods and services				
341 General government	<u>1,000</u>	<u>1,000</u>	<u>6,552</u>	<u>5,552</u>
Total charges for goods and services	<u>1,000</u>	<u>1,000</u>	<u>6,552</u>	<u>5,552</u>
360 Miscellaneous revenue				
361 Investment earnings	5,000	5,000	4,086	(914)
368 Liquor operating agreements	17,500	17,500	23,871	6,371
369 Other	<u>2,200</u>	<u>2,200</u>	<u>10,515</u>	<u>8,315</u>
Total miscellaneous revenue	<u>24,700</u>	<u>24,700</u>	<u>38,472</u>	<u>13,772</u>
Total revenues	<u>321,100</u>	<u>327,668</u>	<u>1,819,435</u>	<u>1,491,767</u>
Expenditures				
410 General government				
411 Legislative	7,000	7,000	-	7,000
411.5 Contingency	11,500	11,500	-	11,500
Amount transferred	-	(6,000)	-	(6,000)
412 Executive (Mayor)	3,500	3,500	-	3,500
414 Financial administration	58,000	58,000	93,550	(35,550)
419 Other	<u>30,580</u>	<u>32,580</u>	<u>-</u>	<u>32,580</u>
Total general government	<u>110,580</u>	<u>106,580</u>	<u>93,550</u>	<u>13,030</u>

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
420 Public safety				
421 Police	3,000	3,000	-	3,000
422 Fire	14,700	14,700	14,596	104
429 Other protection	1,000	1,000	-	1,000
Total public safety	<u>18,700</u>	<u>18,700</u>	<u>14,596</u>	<u>4,104</u>
430 Public works				
431 Highways and streets	140,500	196,068	195,834	234
437 Cemetery	6,000	12,000	10,803	1,197
435 Other public works	600	600	600	-
Total public works	<u>147,100</u>	<u>208,668</u>	<u>207,237</u>	<u>1,431</u>
440 Health and welfare				
441 Health	4,000	4,000	3,285	715
Total health and welfare	<u>4,000</u>	<u>4,000</u>	<u>3,285</u>	<u>715</u>
450 Culture and recreation				
451 Recreation	54,500	48,500	39,354	9,146
Total culture and recreation	<u>54,500</u>	<u>48,500</u>	<u>39,354</u>	<u>9,146</u>
460 Conservation and development				
465 Economic development assistance	2,900	2,900	1,850	1,050
Total conservation and development	<u>2,900</u>	<u>2,900</u>	<u>1,850</u>	<u>1,050</u>
470 Debt service				
471 Principal	4,220	4,220	1,805	2,415
472 Interest	4,000	4,000	2,539	1,461
Total debt service	<u>8,220</u>	<u>8,220</u>	<u>4,344</u>	<u>3,876</u>
490 Miscellaneous				
492 Other expenditures	-	-	85	(85)
Total miscellaneous	<u>-</u>	<u>-</u>	<u>85</u>	<u>(85)</u>
Total expenditures	<u>346,000</u>	<u>397,568</u>	<u>364,301</u>	<u>33,267</u>
Other Financing Sources (Uses)				
391.04 Compensation for loss or damage to Capital Assets	-	-	523	523
Total other financing sources	<u>-</u>	<u>-</u>	<u>523</u>	<u>523</u>
Net Change in Fund Balance	(24,900)	(69,900)	1,455,657	1,525,557
Fund Balance, Beginning	<u>790,984</u>	<u>790,984</u>	<u>790,984</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 766,084</u>	<u>\$ 721,084</u>	<u>\$ 2,246,641</u>	<u>\$ 1,525,557</u>

Note 1 - Budgets and Budgetary Accounting

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

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

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund 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. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. The budget for the General Fund is 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 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

To the City Council
City of Waubay
Waubay, 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 City of Waubay, as of and for the year then ended December 31, 2020, and the related notes to the financial statements, which collectively comprise City of Waubay’s basic financial statements and have issued our report thereon dated September 27, 2021. The statements were prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings, as items 2020-001 and 2020-002 that we consider to be material weaknesses.

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*.

The City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 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 Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
September 27, 2021

Finding 2020-001 - Preparation of Financial Statements, Footnotes and Adjusting Journal Entries

Material Weakness

Criteria: The City of Waubay's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As part of the financial statement preparation process, at times, we propose material audit adjustments that are not identified as a result of the City's existing internal controls and, therefore, could result in a misstatement of the City's financial statements.

Cause: The City has limited staff trained to prepare full disclosure financial statements, including related footnotes, which could cause the need for auditors to, at times, propose material journal entries.

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

Recommendation: This circumstance is not unusual in 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 generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

Finding 2020-002 - Lack of Segregation of Duties

Material Weakness

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

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

Cause: The City has an insufficient number of staff and cannot justify staffing the number of positions necessary to adequately separate duties.

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

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

Views of Responsible Officials: Management agrees with the finding.