



Financial Statements
December 31, 2021
City of Waubay

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MayorKevin Jens

Governing Board Eric Niles
Doug Herold
Mark Birney
Kathy Breske
Shay Swanson

Finance OfficerJulie Jorgenson

AttorneyTom Sannes



Independent Auditor's Report

The City Council
City of Waubay
Waubay, South Dakota

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1 to the financial statements; 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 Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of employer's share of net pension liability (asset) and pension contributions, schedule of long-term debt, budgetary comparison schedule, and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (collectively, the "supplementary information") are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2022, on our consideration of the City'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 of Waubay's internal control over financial reporting and compliance.



Aberdeen, South Dakota
August 4, 2022

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,020,518	\$ 432,550	\$ 1,453,068
Total current assets	<u>1,020,518</u>	<u>432,550</u>	<u>1,453,068</u>
Noncurrent assets			
Restricted cash and cash equivalents	53,481	126,421	179,902
Total noncurrent assets	<u>53,481</u>	<u>126,421</u>	<u>179,902</u>
	<u>\$ 1,073,999</u>	<u>\$ 558,971</u>	<u>\$ 1,632,970</u>
Net Position			
Restricted for			
Library	\$ 16,022	\$ -	\$ 16,022
Grant (HMGP) expenses	53,481	-	53,481
Debt service	-	63,996	63,996
Equipment repair or replacement	-	29,299	29,299
Operations or other capital projects	34,175	33,126	67,301
Unrestricted	<u>970,321</u>	<u>432,550</u>	<u>1,402,871</u>
	<u>\$ 1,073,999</u>	<u>\$ 558,971</u>	<u>\$ 1,632,970</u>

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

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	\$ 172,764	\$ 4,003	\$ -	\$ -	\$ (168,761)	\$ -	\$ (168,761)
Public safety	81,182	83	52,682	-	(28,417)	-	(28,417)
Public works	148,805	-	65,686	33,000	(50,119)	-	(50,119)
Health and welfare	3,686	-	-	-	(3,686)	-	(3,686)
Culture and recreation	45,878	-	-	-	(45,878)	-	(45,878)
Conservation and development	2,869	-	-	-	(2,869)	-	(2,869)
Miscellaneous	1,309,146	-	-	-	(1,309,146)	-	(1,309,146)
Debt service	4,344	-	-	-	(4,344)	-	(4,344)
Total governmental activities	<u>1,768,674</u>	<u>4,086</u>	<u>118,368</u>	<u>33,000</u>	<u>(1,613,220)</u>	<u>-</u>	<u>(1,613,220)</u>
Business-type activities							
Water	108,692	113,482	-	-	-	4,790	4,790
Sewer	178,320	150,746	-	-	-	(27,574)	(27,574)
Total business-type activities	<u>287,012</u>	<u>264,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,784)</u>	<u>(22,784)</u>
	<u>\$ 2,055,686</u>	<u>\$ 268,314</u>	<u>\$ 118,368</u>	<u>\$ 33,000</u>	<u>(1,613,220)</u>	<u>(22,784)</u>	<u>(1,636,004)</u>
General Revenues							
Taxes							
Property taxes					140,397	-	140,397
Sales taxes					183,452	-	183,452
State shared revenues					5,003	-	5,003
Unrestricted investing earnings					3,309	1,313	4,622
Miscellaneous revenue					39,597	-	39,597
Transfers					31,106	(31,106)	-
Total general revenues and transfers					<u>402,864</u>	<u>(29,793)</u>	<u>373,071</u>
Change in Net Position					(1,210,356)	(52,577)	(1,262,933)
Net Position, Beginning					2,284,355	611,548	2,895,903
Net Position, Ending					<u>\$ 1,073,999</u>	<u>\$ 558,971</u>	<u>\$ 1,632,970</u>

See Notes to Financial Statements

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

	General Fund	Capital Project Fund	Total
Assets			
Cash and cash equivalents	\$ 986,343	\$ 34,175	\$ 1,020,518
Restricted cash	53,481	-	53,481
	<u>\$ 1,039,824</u>	<u>\$ 34,175</u>	<u>\$ 1,073,999</u>
Fund Balances			
264 Restricted for			
Library	\$ 16,022	\$ -	\$ 16,022
Capital projects	-	34,175	34,175
Grant (HGMP) expenses	53,481	-	53,481
267 Unassigned	970,321	-	970,321
	<u>1,039,824</u>	<u>34,175</u>	<u>1,073,999</u>
Total fund balances	<u>\$ 1,039,824</u>	<u>\$ 34,175</u>	<u>\$ 1,073,999</u>

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

	General Fund	Capital Project Fund	Total
Revenues			
310 Taxes			
311 General property taxes	\$ 140,397	\$ -	\$ 140,397
313 General sales and use taxes	183,452	-	183,452
Total taxes	<u>323,849</u>	<u>-</u>	<u>323,849</u>
320 Licenses and permits	<u>646</u>	<u>-</u>	<u>646</u>
330 Intergovernmental revenue			
331 Federal grants	85,682	-	85,682
335 State shared revenue			
335.01 Bank franchise tax	980	-	980
335.02 Motor vehicle commercial prorated	3,442	-	3,442
335.03 Liquor tax reversion	4,023	-	4,023
335.04 Motor vehicle licenses (5%)	14,128	-	14,128
335.08 Local government highway and bridge fund	37,140	-	37,140
338.01 County road tax (25%)	1,066	-	1,066
338.02 County HBR tax (25%)	5,162	-	5,162
338.03 County wheel tax	4,748	-	4,748
Total intergovernmental revenue	<u>156,371</u>	<u>-</u>	<u>156,371</u>
340 Charges for goods and services			
341 General government	<u>3,357</u>	<u>-</u>	<u>3,357</u>
Total charges for goods and services	<u>3,357</u>	<u>-</u>	<u>3,357</u>
350 Fines and forfeits			
351 Court fines and costs	<u>83</u>	<u>-</u>	<u>83</u>
Total fines and forfeits	<u>83</u>	<u>-</u>	<u>83</u>
360 Miscellaneous revenue			
361 Investment earnings	2,939	370	3,309
368 Liquor operating agreement income	24,144	-	24,144
369 Other	15,453	-	15,453
Total miscellaneous revenue	<u>42,536</u>	<u>370</u>	<u>42,906</u>
Total revenues	<u>526,842</u>	<u>370</u>	<u>527,212</u>

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

	General Fund	Capital Project Fund	Total
Expenditures			
410 General government			
414 Financial administration	101,037	-	101,037
Total general government	101,037	-	101,037
420 Public safety			
422 Fire	14,019	-	14,019
429 Other protection	5,000	-	5,000
Total public safety	19,019	-	19,019
430 Public works			
431 Highway and streets	121,419	-	121,419
437 Cemetery	8,961	-	8,961
435 Airport	600	-	600
Total public works	130,980	-	130,980
440 Health and welfare			
441 Health	3,686	-	3,686
Total health and welfare	3,686	-	3,686
450 Culture and recreation			
451 Recreation	40,178	-	40,178
Total culture and recreation	40,178	-	40,178
460 Conservation and development			
465 Economic development and assistance (industrial development)	2,869	-	2,869
Total conservation and development	2,869	-	2,869
470 Debt service			
Principal	1,892	-	1,892
Interest	2,452	-	2,452
Total debt service	4,344	-	4,344
485 Capital outlay	95,252	62,163	157,415

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

	General Fund	Capital Project Fund	Total
490 Miscellaneous			
492 Other expenditures	1,309,146	-	1,309,146
Total miscellaneous	1,309,146	-	1,309,146
Total expenditures	1,706,511	62,163	1,768,674
Other Financing Source (Use)			
391.01 Transfers In	-	58,254	58,254
511 Transfers Out	(27,148)	-	(27,148)
Total other financing source (use)	(27,148)	58,254	31,106
Net Change in Fund Balance	(1,206,817)	(3,539)	(1,210,356)
Fund Balance, Beginning	2,246,641	37,714	2,284,355
Fund Balance, Ending	<u>\$ 1,039,824</u>	<u>\$ 34,175</u>	<u>\$ 1,073,999</u>

City of Waubay
Balance Sheet—Modified Cash Basis—Proprietary Funds
December 31, 2021

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 144,032	\$ 288,518	\$ 432,550
Total current assets	<u>144,032</u>	<u>288,518</u>	<u>432,550</u>
Noncurrent assets			
Restricted cash and cash equivalents	<u>37,475</u>	<u>88,946</u>	<u>126,421</u>
Total noncurrent assets	<u>37,475</u>	<u>88,946</u>	<u>126,421</u>
Total assets	<u>\$ 181,507</u>	<u>\$ 377,464</u>	<u>\$ 558,971</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	23,795	29,299
253.29 Operations and future projects	16,563	16,563	33,126
253.90 Unrestricted	<u>144,032</u>	<u>288,518</u>	<u>432,550</u>
Total net position	<u>181,507</u>	<u>377,464</u>	<u>558,971</u>
	<u>\$ 181,507</u>	<u>\$ 377,464</u>	<u>\$ 558,971</u>

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

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenue			
380 Charges for goods and services	\$ 113,482	\$ 150,746	\$ 264,228
Total operating revenue	<u>113,482</u>	<u>150,746</u>	<u>264,228</u>
Operating Expenses			
410 Personal services	25,306	21,256	46,562
420 Other current expenses	15,973	4,199	20,172
426 Supplies and materials	18,116	24,396	42,512
430 Capital assets	-	27,298	27,298
Total operating expenses	<u>59,395</u>	<u>77,149</u>	<u>136,544</u>
Operating Income	<u>54,087</u>	<u>73,597</u>	<u>127,684</u>
Nonoperating Revenue (Expense)			
361 Investment earnings	12	1,301	1,313
440 Debt service principal	(29,826)	(39,211)	(69,037)
441 Interest expense	(19,471)	(61,960)	(81,431)
Total nonoperating expense	<u>(49,285)</u>	<u>(99,870)</u>	<u>(149,155)</u>
391.1 Transfers in	4,519	-	4,519
511 Transfers out	-	(35,625)	(35,625)
Change in Net Position	9,321	(61,898)	(52,577)
Net Position, Beginning	<u>172,186</u>	<u>439,362</u>	<u>611,548</u>
Net Position, Ending	<u>\$ 181,507</u>	<u>\$ 377,464</u>	<u>\$ 558,971</u>

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

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 113,482	\$ 150,746	\$ 264,228
Payments to suppliers	(34,089)	(28,595)	(62,684)
Payments to employees	(25,306)	(21,256)	(46,562)
Net Cash from Operating Activities	<u>54,087</u>	<u>100,895</u>	<u>154,982</u>
Cash Flows from (used for) Noncapital Financing Activities			
Transfers to other funds	-	(35,625)	(35,625)
Transfers from other funds	4,519	-	4,519
Net Cash from (used for) Noncapital Financing Activities	<u>4,519</u>	<u>(35,625)</u>	<u>(31,106)</u>
Cash Flows used for Capital and Related Financing Activities			
Purchase of capital assets	-	(27,298)	(27,298)
Principal paid on capital debt	(29,826)	(39,211)	(69,037)
Interest paid on capital debt	(19,471)	(61,960)	(81,431)
Net Cash used for Capital and Related Financing Activities	<u>(49,297)</u>	<u>(128,469)</u>	<u>(177,766)</u>
Cash Flows from Investing Activities			
Cash received for interest	12	1,301	1,313
Net Cash from Investing Activities	<u>12</u>	<u>1,301</u>	<u>1,313</u>
Net Change in Cash and Cash Equivalents	9,321	(61,898)	(52,577)
Cash and Cash Equivalents, Beginning	<u>172,186</u>	<u>439,362</u>	<u>611,548</u>
Cash and Cash Equivalents, Ending	<u>\$ 181,507</u>	<u>\$ 377,464</u>	<u>\$ 558,971</u>
Cash and Cash Equivalents Consist of			
Cash and cash equivalents	\$ 144,032	\$ 288,518	\$ 432,550
Restricted cash and cash equivalents	37,475	88,946	126,421
	<u>\$ 181,507</u>	<u>\$ 377,464</u>	<u>\$ 558,971</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 54,087	\$ 73,597	\$ 127,684
Adjustments to reconcile operating income to Net cash from operating activities			
Purchase of capital assets	-	27,298	27,298
Net Cash from Operating Activities	<u>\$ 54,087</u>	<u>\$ 100,895</u>	<u>\$ 154,982</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; and
- 2) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined; or
- 3) Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year-to-year or because of public interest in the fund's operations.

The funds of the City 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 Project 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 of accounting, 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.

Note 2 - Deposits and Investments

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

Deposits

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

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

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2021, the City’s deposits in First Savings Bank were exposed to custodial credit risk. As of December 31, 2021, First Savings Bank was under-collateralized by 6.82% amounting to approximately \$77,472 of uninsured deposits in this financial institution at risk.

The actual bank balances at December 31, 2021, 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	1,135,946
Total deposits	\$ 1,635,946

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

Cash and cash equivalents	\$ 1,632,970
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Investments

As of December 31, 2021, 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 - Line of Credit

The City has an unused line of credit from a commercial bank in the amount of \$550,000. The credit line carries a 3.75% interest rate and has a maturity date of June 4, 2023.

Note 4 - 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 5 - 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	\$ 16,022
General Fund	Contractual	53,481
Capital Project Fund	Contractual	34,175
Sewer Fund	Contractual	88,946
Water Fund	Contractual	37,475

Note 6 - 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, 2021, 2020, and 2019, were \$6,828, \$6,003, and \$6,271, 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, 2021, SDRS is 105.53% 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, 2021, and reported by the City as of December 31, 2021, is as follows:

	2021
Proportionate share of total pension liability	\$ 616,499
Less proportionate share of net position restricted for pension benefits	650,548
Proportionate share of net pension liability (asset)	\$ (34,049)

The net pension asset was measured as of June 30, 2021, and the total pension liability used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the City's proportion was 0.004446%, which was a decrease of 0.0004463% from its proportion measured as of June 30, 2020. The City's proportionate share of the net pension asset is not reported in financial statements shown under modified cash basis of accounting.

Actuarial Assumptions

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

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

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate

The discount rate used to measure the total pension 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 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, 2021, 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)	\$ 55,133	\$ (34,049)	\$ (1,064,434)

Pension Plan Fiduciary Net Position

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

Note 7 - Risk Management

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

Employee Health Insurance

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

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

Note 8 - Commitments and Contingencies

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

Note 9 - Interfund Transfers

Interfund transfers for the year ended December 31, 2021 were as follows:

- Transfer from Sewer Fund to Capital Project Fund in amount of \$35,625 to supplement capital project activity.
- Transfer from General Fund to Capital Project Fund in amount of \$22,629 to supplement capital project activity.
- Transfer from General Fund to Water Fund in amount of \$4,519 to supplement water fund operations.

Note 10 - Violation of Finance Related Legal and Contractual Provisions

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

- Public safety in the amount of \$1,319
- Miscellaneous in the amount of \$1,309,146

The City plans to exercise increased fiscal controls within the budget process to ensure budgeted appropriations are sufficient and to ensure supplemental appropriations ordinances, as necessary, are passed to ensure no overspending of appropriations.

Note 11 - Subsequent Events

Subsequent to year-end, the City purchased or has committed to purchase approximately \$98,000 of equipment.



Supplementary Information
December 31, 2021

City of Waubay

City of Waubay

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

Pension Plan	Fiscal Year Ending	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SDRS	6/30/2021	0.0044%	\$ (34,049)	\$ 99,300	-34.3%	105.53%
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	12/31/2021	\$ 6,828	\$ 6,828	\$ -	\$ 113,800	6.0%
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	-	93,284	6.0%
SDRS	12/31/2017	3,768	3,768	-	62,795	6.0%
SDRS	12/31/2016	3,607	3,607	-	60,120	6.0%
SDRS	12/31/2015	3,747	3,747	-	62,455	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, 2021

Indebtedness	Long-Term Debt 1/1/2021	Add New Debt	Less Debt Retired	Less Debt Forgiven	Long-Term Debt 12/31/2021
Governmental Long-Term Debt					
239.00 Other	\$ 52,473	\$ -	\$ 1,892	\$ -	\$ 50,581
Enterprise Long-Term Debt					
231.02 Revenue bonds					
Wastewater	546,252	-	17,858	-	528,394
Water	441,418	-	6,874	-	434,544
237 Other long-term debt					
Wastewater (#2)	117,438	-	3,238	-	114,200
Wastewater (#3)	889,341	-	18,115	-	871,226
Water	514,898	-	22,952	-	491,946
Total	<u>\$ 2,561,820</u>	<u>\$ -</u>	<u>\$ 70,929</u>	<u>\$ -</u>	<u>\$ 2,490,891</u>

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 137,100	\$ 137,100	\$ 140,397	\$ 3,297
313 General sales and use taxes	140,000	140,000	183,452	43,452
Total taxes	<u>277,100</u>	<u>277,100</u>	<u>323,849</u>	<u>46,749</u>
320 Licenses and permits	<u>3,500</u>	<u>3,500</u>	<u>646</u>	<u>(2,854)</u>
330 Intergovernmental revenue				
331 Federal grants	-	1,986	85,682	83,696
335 State shared revenue				
335.01 Bank franchise tax	500	500	980	480
335.02 Motor vehicle commercial prorate	2,400	2,400	3,442	1,042
335.03 Liquor tax reversion	4,000	4,000	4,023	23
335.04 Motor vehicle licenses (5%)	5,300	5,300	14,128	8,828
335.08 Local government highway and bridge fund	22,000	22,000	37,140	15,140
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	5,162	4,062
338.03 County wheel tax	4,000	4,000	4,748	748
Total intergovernmental revenue	<u>40,300</u>	<u>42,286</u>	<u>156,371</u>	<u>114,085</u>
340 Charges for goods and services				
341 General government	<u>1,000</u>	<u>1,000</u>	<u>3,357</u>	<u>2,357</u>
Total charges for goods and services	<u>1,000</u>	<u>1,000</u>	<u>3,357</u>	<u>2,357</u>
350 Fines and forfeits				
351 Court fines and costs	<u>-</u>	<u>-</u>	<u>83</u>	<u>83</u>
Total fines and forfeits	<u>-</u>	<u>-</u>	<u>83</u>	<u>83</u>
360 Miscellaneous revenue				
361 Investment earnings	5,000	5,000	2,939	(2,061)
368 Liquor operating agreements	17,500	17,500	24,144	6,644
369 Other	<u>2,200</u>	<u>2,200</u>	<u>15,453</u>	<u>13,253</u>
Total miscellaneous revenue	<u>24,700</u>	<u>24,700</u>	<u>42,536</u>	<u>17,836</u>
Total revenues	<u>346,600</u>	<u>348,586</u>	<u>526,842</u>	<u>178,256</u>
Expenditures				
410 General government				
411 Legislative	7,000	7,000	-	7,000
411.5 Contingency	11,500	11,500	-	-
Amount transferred	-	(10,200)	-	(10,200)
412 Executive	3,500	3,500	-	3,500
414 Financial administration	60,600	60,600	172,764	(112,164)
419 Other	<u>30,580</u>	<u>120,580</u>	<u>-</u>	<u>120,580</u>
Total general government	<u>113,180</u>	<u>192,980</u>	<u>172,764</u>	<u>8,716</u>

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

	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	14,019	681
429 Other protection	-	-	5,000	(5,000)
Total public safety	<u>17,700</u>	<u>17,700</u>	<u>19,019</u>	<u>(1,319)</u>
430 Public works				
431 Highways and streets	159,000	168,000	139,244	28,756
437 Cemetery	9,000	9,000	8,961	39
435 Airport	600	600	600	-
Total public works	<u>168,600</u>	<u>177,600</u>	<u>148,805</u>	<u>28,795</u>
440 Health and welfare				
441 Health	3,000	4,986	3,686	1,300
Total health and welfare	<u>3,000</u>	<u>4,986</u>	<u>3,686</u>	<u>1,300</u>
450 Culture and recreation				
451 Recreation	4,500	4,500	45,878	(41,378)
452 Parks	18,000	19,200	-	19,200
455 Library	30,000	30,000	-	30,000
Total culture and recreation	<u>52,500</u>	<u>53,700</u>	<u>45,878</u>	<u>7,822</u>
460 Conservation and development				
465 Economic development assistance	2,900	2,900	2,869	31
Total conservation and development	<u>2,900</u>	<u>2,900</u>	<u>2,869</u>	<u>31</u>
470 Debt service				
471 Principal	4,220	4,220	1,892	2,328
472 Interest	4,000	4,000	2,452	1,548
Total debt service	<u>8,220</u>	<u>8,220</u>	<u>4,344</u>	<u>3,876</u>
490 Miscellaneous				
492 Other expenditures	-	-	1,309,146	(1,309,146)
Total miscellaneous	<u>-</u>	<u>-</u>	<u>1,309,146</u>	<u>(1,309,146)</u>
Total expenditures	<u>366,100</u>	<u>458,086</u>	<u>1,706,511</u>	<u>(1,259,925)</u>
Other Financing Sources (Uses)				
511 Transfers out	-	-	(27,148)	(27,148)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(27,148)</u>	<u>(27,148)</u>
Net Change in Fund Balance	(19,500)	(109,500)	(1,206,817)	1,411,033
Fund Balance, Beginning	<u>2,246,641</u>	<u>2,246,641</u>	<u>2,246,641</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 2,227,141</u>	<u>\$ 2,137,141</u>	<u>\$ 1,039,824</u>	<u>\$ 1,411,033</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, 2021.

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, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 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 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

Actuarial Assumption Changes

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

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

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

Actuarial Method Changes

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



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

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 the City of Waubay (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Waubay’s basic financial statements and have issued our report thereon dated August 4, 2022. The financial statements were prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

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

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001 and 2021-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2021-003 to be a significant deficiency.

Report on Compliance and Other Matters

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

The City's Response to Findings

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

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.



Aberdeen, South Dakota
August 4, 2022



**Independent Auditor's Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance Required by the Uniform Guidance**

The City Council
City of Waubay
Waubay, South Dakota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the City of Waubay's (the City) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2021. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-004 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Aberdeen, South Dakota
August 4, 2022

City of Waubay
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Pass-through Entity Identifying Number	Federal Financial Assistance Listing/Federal CFDA Number	Expenditures
Department of Homeland Security Passed Through South Dakota Office of Emergency Management Hazard Mitigation Grant Program	DR-4440-HMGP-34R	97.039	\$ 1,142,267
Total Federal Financial Assistance			<u>\$ 1,142,267</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City of Waubay (the City) under programs of the federal government for the year ended December 31, 2021. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position and fund balance, or cash flows of the City.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the cash basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing/CFDA Number</u>
Hazard Mitigation Grant Program	97.039
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2021-001 - Preparation of Financial Statements, Footnotes, Schedule of Expenditures of Federal Awards, and Audit 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, as well as the schedule of expenditures of federal awards, 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 and schedule of expenditures of federal awards being audited, and as a result, we as auditors were requested to prepare the financial statements and schedule of expenditures of federal awards. 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 or the schedule of expenditures of federal awards.

Cause: The City has limited staff trained to prepare full disclosure financial statements and the schedule of expenditures of federal awards, including related footnotes. This could also 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 and schedule of expenditures of federal awards.

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 2021-002 - 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.

Finding 2021-003 – Violations of South Dakota Codified Law (SDCL)

Significant Deficiency

Criteria: A good system of internal controls ensures that all laws and regulations pertaining to the City are monitored and followed to ensure the City remains in compliance. South Dakota Codified Law sets forth the laws and regulations governing municipalities within the State of South Dakota.

Condition: Based on our audit procedures, the City of Waubay violated SDCL related to (1) unapproved transfers between funds, (2) overspending of budgeted appropriations within certain General Fund departments, (3) lack of reporting outstanding checks as of the preceding June 30th not cashed within one year of their issuance date, (4) lack of posting or otherwise making available a copy of the annual audit report on the City's website, and (5) lack of publishing minutes of City Council meetings in the official newspaper of the City within 12 days of the council meeting.

Cause: Lack of oversight of management of the City and failure in monitoring controls did not ensure compliance with these provisions and requirements within SDCL.

Effect: Known noncompliance with these requirements and provisions of SDCL were identified during our audit and could result in potential fine or impact to future funding provided to the City.

Recommendation: We recommend that management of the City review existing controls in place for monitoring compliance with SDCL's and to increase management oversight of compliance with SDCL specifically in the areas in which noncompliance from our audit was noted.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

Finding 2021-004

**Department of Homeland Security
Passed Through South Dakota Office of Emergency Management
Federal Financial Assistance Listing/CFDA #97.039
Hazard Mitigation Grant Program**

**Reporting
Material Weakness in Internal Control Over Compliance**

Criteria: The terms of the sub-recipient agreement between the State of South Dakota Department of Emergency Management and the City require quarterly reports that include a comparison of actual accomplishments to the approved activity objectives, percentage completed to date, and a summary of the financial activity for the reporting quarter and planned activity for the next quarter. These reports are required to be submitted within 15 days of each quarter end per the grant award. Reporting requirements are contained in 2 CFR section 200.328.

Condition: During our testing we noted that amounts reported for expenditures to date did not agree to the related supporting documentation of actual expenditures incurred through the period of each respective quarterly report date tested. We also noted one of the reports tested was not submitted within the required 15 days.

Cause: Management review of the third-party prepared report compared to supporting documentation did not identify the differences prior to submission of the report to the state and did not ensure all the reports were submitted within the required 15 days.

Effect: Amounts reported for expenditures to date on the quarterly reports tested did not agree to related supporting documentation and, therefore, amounts reported to the State we determined to be inaccurate and for one quarter was submitted late.

Questioned Costs: None reported

Context/Sampling: Nonstatistical sampling was used. Sample size was 2 out of 4 quarterly reports.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend management perform a more thorough and detailed review of the reports prepared by the third party, including comparison or reconciliation to supporting detailed accounting and other records and documentation, prior to submission to the State, and to ensure timely submission of such reports once reviewed.

Views of Responsible Officials: Management agrees with the finding.

THE CITY OF WAUBAY
In the Heart of the Lake Region

**Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
December 31, 2021**

**Prepared by Management of
City of Waubay**

Financial Statement Findings

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

Initial Fiscal Year Finding Occurred: 2012

Finding Summary: The City of Waubay does not have an internal control system designed to provide for the preparation of the financial statements being audited, which at times, results in significant audit adjustments. Eide Bailly, LLP prepared our draft financial statements and accompanying notes to the financial statements.

Status: Ongoing. Due to cost considerations, we will continue to have Eide Bailly LLP prepare our draft financial statements and accompanying notes to the financial statements.

Finding 2020-002 Lack of Segregation of Duties

Initial Fiscal Year Finding Occurred: 2012

Finding Summary: 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 due to a lack of segregation of duties.

Status: Ongoing. We will continue to examine and modify our internal control procedures to improve segregation of duties where possible.

Financial Statement Findings

Finding 2021-001 Preparation of Financial Statements, Footnotes, Schedule of Expenditures of Federal Awards, and Significant Journal Entries

Finding Summary: Eide Bailly LLP prepared our financial statements, accompanying notes to the financial statements, as well as the schedule of expenditures of federal awards. They also proposed material audit adjustments that would not have been identified because of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Responsible Individuals: Julie Jorgenson, Finance Officer

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes, as well as the schedule of expenditures of federal awards. We requested that our auditors, Eide Bailly LLP, prepared the financial statements, the accompanying notes to the financial statements, and the schedule of expenditures of federal awards as a part of their annual audit. We have designated a member of management to review these items, and we have reviewed with and agree with the material adjustments proposed during the audit.

Anticipated Completion Date: Ongoing

Finding 2021-002 Lack of Segregation of Duties

Finding Summary: The City does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Responsible Individuals: Julie Jorgenson, Finance Officer

Corrective Action Plan: We will continue to examine and modify our internal control procedures to improve segregation of duties where possible.

Anticipated Completion Date: Ongoing

South Dakota Legal Compliance Finding

Finding 2021-003 Violations of South Dakota Codified Law (SDCL)

Finding Summary: Eide Bailly LLP identified certain violations of SDCL including unapproved transfers between funds, overspending of budgeted appropriations within certain General Fund departments, lack of reporting outstanding checks as of the preceding June 30th not cashed within 1 year of the issuance date, lack of posting, or otherwise making available a copy of the audit report on the City's website and lack of publishing the minutes of the City Council Meetings in the official newspaper within 12 days of the council meeting.

Responsible Individuals: Julie Jorgenson, Finance Officer

Corrective Action Plan: Management and the Council will review and implement additional controls for monitoring compliance with SDCL's and increase management oversight of compliance with SDCL's specifically related to areas in which non-compliance was noted during the audit.

Anticipated Completion Date: December 31, 2022

Federal Award Findings

Finding 2021-004 Reporting

**Department of Homeland Security, Passed through the South Dakota Office of Emergency Management
Federal Financial Assistance Listing / CFDA #97.039
Hazard Mitigation Grant Program**

Finding Summary: The terms of the subrecipient agreement require quarterly reports that include a comparison of actual accomplishments to the approved activity objectives, percentage completed to date and a summary of the financial activity for the reporting quarter and planned activity for the next quarter. Audit procedures noted that amounts reported for expenditures to date did not agree to supporting documentation of actual expenditures incurred through the period of each respective quarterly report date tested. Auditors also noted one of the reports tested was submitted, but not submitted within the required 15 days per the grant agreement.

Responsible Individuals: Julie Jorgenson, Finance Officer

Corrective Action Plan: Management will review the reports prepared by the third-party prior to submission to ensure the amounts reported on the quarterly reports agree to the supporting documentation maintained by the City and reconcile any differences between the third-party support and the City's records. Management will also exercise greater oversight regarding the timing of the submission of the reports to ensure timely submission.

Anticipated Completion Date: Ongoing