



Financial Statements  
December 31, 2022  
**City of Webster**

Mayor ..... Mike Grosek

City Council ..... Dale Miller, President  
Jim Grimes, Vice-President  
Wayne Klungseth  
Derek Sinner  
Josh Bartos  
Mike Dunse

Finance Officer ..... Nicole Kwasniewski

Attorney ..... Kent Delaney

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## Independent Auditor's Report

The City Council  
City of Webster  
Webster, South Dakota

### Report on the Audit of the Financial Statements

#### *Adverse and Unmodified Opinions*

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Webster (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Adverse Opinion on Aggregate Discretely Presented Component Unit*

In our opinion, because of the significance of the matter described in the Basis for Adverse and Unmodified Opinions section of our report, the accompanying modified cash basis financial statements referred to above do not present fairly the modified cash basis financial position of the aggregate discretely presented component unit of the City of Webster, as of December 31, 2022, or the modified cash basis changes in financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

#### *Unmodified Opinions on Governmental Activities, the Business-Type Activities, Each Major Fund, and the Aggregate Remaining Fund Information*

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Webster as of December 31, 2022, and the respective modified cash basis changes in modified cash basis financial position, and, where applicable, cash flows – modified cash basis thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

#### *Basis for Adverse and Unmodified Opinions*

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

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

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

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

***Emphasis of Matter – Basis of Accounting***

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

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules of employer's share of net pension liability (asset) and employer's contribution, budgetary comparison schedules, combining balance sheet – nonmajor governmental funds, combining statement of revenue, expenditures and change in fund balance – nonmajor governmental funds, schedule of changes in notes and bonds payable, and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) 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 GAAS. In our opinion, because of the significance of the matter disclosed in the Basis for Adverse and Unmodified Opinions section of our report, it is inappropriate to, and we do not, express an opinion in relation to the basic financial statements as a whole on the supplementary information.

### ***Other Information***

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

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2023, on our consideration of the City of Webster's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Aberdeen, South Dakota  
September 6, 2023

City of Webster  
Statement of Net Position—Modified Cash Basis  
December 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,101,519	\$ 1,316,433	\$ 2,417,952
Restricted assets:			
Cash and cash equivalents	-	788,390	788,390
	<u>\$ 1,101,519</u>	<u>\$ 2,104,823</u>	<u>\$ 3,206,342</u>
Net Position			
Restricted for:			
Debt service purposes	\$ 52,647	\$ 788,390	\$ 841,037
Cemetery reserve	45,934	-	45,934
Promoting the City	275,049	-	275,049
Community development	187,007	-	187,007
Other purposes:			
Active Living Trail Fund	43,351	-	43,351
Library Fines Fund	17,000	-	17,000
Golf Course Caddie Fund	8,840	-	8,840
Diamond Trust Fund	109,539	-	109,539
Fire federal grants	12,593	-	12,593
Unrestricted	<u>349,559</u>	<u>1,316,433</u>	<u>1,665,992</u>
	<u>\$ 1,101,519</u>	<u>\$ 2,104,823</u>	<u>\$ 3,206,342</u>



City of Webster  
Statement of Activities—Modified Cash Basis  
Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 366,070	\$ 75,033	\$ -	\$ -	\$ (291,037)	\$ -	\$ (291,037)
Public safety	549,608	9,690	-	-	(539,918)	-	(539,918)
Public works	1,233,055	18,250	134,800	680,080	(399,925)	-	(399,925)
Culture and recreation	724,052	180,938	-	224,918	(318,196)	-	(318,196)
Conservation and development	35,137	-	-	-	(35,137)	-	(35,137)
Debt service	230,241	-	-	-	(230,241)	-	(230,241)
Total governmental activities	3,138,163	283,911	134,800	904,998	(1,814,454)	-	(1,814,454)
Business-type activities:							
Water	4,090,868	693,533	-	922,335	-	(2,475,000)	(2,475,000)
Sewer	872,113	561,857	8,541	-	-	(301,715)	(301,715)
Liquor	1,678,980	1,740,192	-	-	-	61,212	61,212
Total business-type activities	6,641,961	2,995,582	8,541	922,335	-	(2,715,503)	(2,715,503)
Total primary government	<u>\$ 9,780,124</u>	<u>\$ 3,279,493</u>	<u>\$ 143,341</u>	<u>\$ 1,827,333</u>	<u>(1,814,454)</u>	<u>(2,715,503)</u>	<u>(4,529,957)</u>
General Revenues							
Taxes:							
Property taxes					653,063	-	653,063
Sales taxes					1,316,599	-	1,316,599
State shared revenues					21,279	-	21,279
Unrestricted investment earnings					5,643	888	6,531
Debt issued					-	2,695,773	2,695,773
Miscellaneous revenue					3,365	-	3,365
Compensation for loss or damage to capital assets					43,263	-	43,263
Total general revenues and transfers					2,043,212	2,696,661	4,739,873
Change in Net Position					228,758	(18,842)	209,916
Net Position - Beginning					872,761	2,123,665	2,996,426
Net Position - Ending					<u>\$ 1,101,519</u>	<u>\$ 2,104,823</u>	<u>\$ 3,206,342</u>

See Notes to Financial Statements

City of Webster  
Balance Sheet—Modified Cash Basis—Governmental Funds  
December 31, 2022

	Major Funds					
	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Community Development Fund	Pool Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 410,849	\$ 275,049	\$ 187,007	\$ 37,291	\$ 191,323	\$ 1,101,519
	<u>\$ 410,849</u>	<u>\$ 275,049</u>	<u>\$ 187,007</u>	<u>\$ 37,291</u>	<u>\$ 191,323</u>	<u>\$ 1,101,519</u>
Fund Balances						
264 Restricted						
Debt service purposes	\$ 15,356	\$ -	\$ -	\$ 37,291	\$ -	\$ 52,647
Cemetery reserve	45,934	-	-	-	-	45,934
Promoting the City	-	275,049	-	-	-	275,049
Community development	-	-	187,007	-	-	187,007
Other purposes:						
Active Living Trail Fund	-	-	-	-	43,351	43,351
Library Fines Fund	-	-	-	-	17,000	17,000
Golf Course Caddie Fund	-	-	-	-	8,840	8,840
Diamond Trust Fund	-	-	-	-	109,539	109,539
Fire federal grants	-	-	-	-	12,593	12,593
267 Unassigned	349,559	-	-	-	-	349,559
	<u>\$ 410,849</u>	<u>\$ 275,049</u>	<u>\$ 187,007</u>	<u>\$ 37,291</u>	<u>\$ 191,323</u>	<u>\$ 1,101,519</u>

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds  
Year Ended December 31, 2022

	Major Funds					Total Governmental Funds
	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Community Development Fund	Pool Debt Service Fund	Nonmajor Governmental Funds	
Revenues						
310 Taxes						
311 General property taxes	\$ 541,582	\$ -	\$ -	\$ 94,178	\$ -	\$ 635,760
313 General sales and use taxes	1,227,693	88,906	-	-	-	1,316,599
314 Gross receipts business taxes	15,209	-	-	-	-	15,209
319 Penalties and interest on delinquent taxes	1,777	-	-	317	-	2,094
Total taxes	1,786,261	88,906	-	94,495	-	1,969,662
320 Licenses and permits	9,464	-	-	-	-	9,464
330 Intergovernmental revenue						
331 Federal grants	674,861	-	-	-	-	674,861
334 State grants	4,000	-	-	-	-	4,000
335 State shared revenue						
335.01 Bank franchise tax	5,931	-	-	1,052	-	6,983
335.02 Motor vehicle commercial prorate	5,811	-	-	-	-	5,811
335.03 Liquor tax reversion	12,109	-	-	-	-	12,109
335.04 Motor vehicle licenses (5%)	23,296	-	-	-	-	23,296
335.08 Local government highway and bridge fund	71,197	-	-	-	-	71,197
338 County shared revenue						
338.01 County road tax (25%)	26,524	-	-	-	-	26,524
338.03 County wheel tax	7,972	-	-	-	-	7,972
339 Other intergovernmental revenues	2,187	-	-	-	-	2,187
Total intergovernmental revenue	833,888	-	-	1,052	-	834,940
340 Charges for goods and services						
341 General government	47,023	-	-	-	-	47,023
342 Public safety	7,855	-	-	-	-	7,855
346 Culture and recreation	180,938	-	-	-	-	180,938
348 Cemetery	18,250	-	-	-	-	18,250
Total charges for good and services	254,066	-	-	-	-	254,066
350 Fines and forfeits						
351 Court fines and costs	500	-	-	-	-	500
353 Parking meter fines	1,335	-	-	-	-	1,335
Total fines and forfeits	1,835	-	-	-	-	1,835
360 Miscellaneous revenue						
361 Investment earnings	3,122	981	530	-	1,010	5,643
362 Rentals	18,546	-	-	-	-	18,546
363 Special assessments	1,219	-	-	-	-	1,219
367 Contributions and donations from private sources	11,897	-	-	50,000	163,021	224,918
369 Other	3,365	-	-	-	-	3,365
Total miscellaneous revenue	38,149	981	530	50,000	164,031	253,691
Total revenues	2,923,663	89,887	530	145,547	164,031	3,323,658

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds  
Year Ended December 31, 2022

	Major Funds					Total Governmental Funds
	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Community Development Fund	Pool Debt Service Fund	Nonmajor Governmental Funds	
Expenditures						
410 General government						
411 Legislative	16,909	-	-	-	-	16,909
414 Financial administration	226,219	-	-	-	-	226,219
419 Other	122,942	-	-	-	-	122,942
Total general government	366,070	-	-	-	-	366,070
420 Public safety						
421 Police	439,234	-	-	-	-	439,234
422 Fire	33,913	-	-	-	17,495	51,408
Total public safety	473,147	-	-	-	17,495	490,642
430 Public works						
431 Highways and streets	519,568	-	-	-	-	519,568
435 Airport	605,462	-	-	-	-	605,462
437 Cemeteries	42,253	-	-	-	-	42,253
439 Transit	-	3,500	-	-	-	3,500
Total public works	1,167,283	3,500	-	-	-	1,170,783
450 Culture and recreation						
451 Recreation	343,726	-	-	1,870	37,302	382,898
452 Parks	94,543	2,290	-	-	16	96,849
455 Libraries	103,171	-	-	-	2,963	106,134
456 Auditorium	-	25,000	-	-	-	25,000
Total culture and recreation	541,440	27,290	-	1,870	40,281	610,881
460 Conservation and development						
463 Urban development and housing	137	-	-	-	-	137
466 Economic opportunity	-	35,000	-	-	-	35,000
Total conservation and development	137	35,000	-	-	-	35,137
470 Debt service	77,574	-	-	152,667	-	230,241
485 Capital outlay	164,715	-	-	-	69,694	234,409
Total expenditures	2,790,366	65,790	-	154,537	127,470	3,138,163
Other Financing Sources (Uses)						
391.01 Transfers in	-	-	-	9,400	-	9,400
391.04 Compensation for loss or damage to capital assets	43,263	-	-	-	-	43,263
511 Transfers out	(9,400)	-	-	-	-	(9,400)
Total other financing sources	33,863	-	-	9,400	-	43,263
Net Change in Fund Balance	167,160	24,097	530	410	36,561	228,758
Fund Balance - Beginning	243,689	250,952	186,477	36,881	154,762	872,761
Fund Balance - Ending	\$ 410,849	\$ 275,049	\$ 187,007	\$ 37,291	\$ 191,323	\$ 1,101,519

City of Webster  
Statement of Net Position—Modified Cash Basis—Proprietary Funds  
December 31, 2022

	Enterprise Funds			
	Water Fund	Sewer Fund	Liquor Fund	Totals
Assets				
Current Assets				
Cash and cash equivalents	\$ 140,140	\$ 876,265	\$ 300,028	\$ 1,316,433
Total current assets	140,140	876,265	300,028	1,316,433
Noncurrent Assets				
107.1 Restricted cash and cash equivalents	282,879	505,511	-	788,390
Total noncurrent assets	282,879	505,511	-	788,390
	<u>\$ 423,019</u>	<u>\$ 1,381,776</u>	<u>\$ 300,028</u>	<u>\$ 2,104,823</u>
Net Position				
253.20 Restricted net position for:				
253.21 Revenue bond debt service	\$ 282,879	\$ 409,007	\$ -	\$ 691,886
253.22 Revenue bond retirement	-	96,504	-	96,504
253.90 Unrestricted	140,140	876,265	300,028	1,316,433
Total net position	423,019	1,381,776	300,028	2,104,823
	<u>\$ 423,019</u>	<u>\$ 1,381,776</u>	<u>\$ 300,028</u>	<u>\$ 2,104,823</u>

City of Webster

Statement of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2022

	Enterprise Funds			
	Water Fund	Sewer Fund	Liquor Fund	Totals
Operating Revenue				
380 Charges for goods and services	\$ 531,587	\$ 376,071	\$ 1,740,192	\$ 2,647,850
380 Debt service surcharge	161,946	185,786	-	347,732
Total operating revenue	693,533	561,857	1,740,192	2,995,582
Operating Expenses				
410 Personal services	108,553	129,585	161,190	399,328
420 Other current expense	915,117	407,686	99,966	1,422,769
426.2 Materials	-	-	1,403,206	1,403,206
430 Capital assets	3,047,585	232,897	-	3,280,482
Total operating expenses	4,071,255	770,168	1,664,362	6,505,785
Operating Income (Loss)	(3,377,722)	(208,311)	75,830	(3,510,203)
Nonoperating Revenue (Expense)				
330 Operating grants	922,335	8,541	-	930,876
361 Investment earnings	-	-	888	888
429 Proceeds from debt issuance	2,508,577	187,196	-	2,695,773
440 Debt service principal	-	(56,623)	(7,256)	(63,879)
442 Interest expense	(19,613)	(45,322)	(7,362)	(72,297)
Total nonoperating revenue (expense)	3,411,299	93,792	(13,730)	3,491,361
Net Change in Fund Balance	33,577	(114,519)	62,100	(18,842)
Net Position - Beginning	389,442	1,496,295	237,928	2,123,665
Net Position - Ending	\$ 423,019	\$ 1,381,776	\$ 300,028	\$ 2,104,823

City of Webster  
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2022

	Enterprise Funds			
	Water Fund	Sewer Fund	Liquor Fund	Totals
Cash Flows from (used for) Operating Activities				
Receipts from customers	\$ 693,533	\$ 561,857	\$ 1,740,192	\$ 2,995,582
Payments to suppliers	(915,117)	(407,686)	(1,503,172)	(2,825,975)
Payments to employees	(108,553)	(129,585)	(161,190)	(399,328)
Net Cash from (used for) Operating Activities	(330,137)	24,586	75,830	(229,721)
Cash Flows from (used for) Capital and Related Financing Activities				
Proceeds from capital debt	2,508,577	187,196	-	2,695,773
Operating grants	922,335	8,541	-	930,876
Purchase of capital assets	(3,047,585)	(232,897)	-	(3,280,482)
Principal paid on capital debt	-	(56,623)	(7,256)	(63,879)
Interest paid on capital debt	(19,613)	(45,322)	(7,362)	(72,297)
Net Cash from (used for) Capital and Related Financing Activities	363,714	(139,105)	(14,618)	209,991
Cash Flows from Investing Activities				
Interest earnings	-	-	888	888
Net Cash from Investing Activities	-	-	888	888
Net Change in Cash and Cash Equivalents	33,577	(114,519)	62,100	(18,842)
Cash and Cash Equivalents - Beginning	389,442	1,496,295	237,928	2,123,665
Cash and Cash Equivalents - Ending	<u>\$ 423,019</u>	<u>\$ 1,381,776</u>	<u>\$ 300,028</u>	<u>\$ 2,104,823</u>
Cash and Cash Equivalents Consist of:				
Cash and cash equivalents	\$ 140,140	\$ 876,265	\$ 300,028	\$ 1,316,433
Restricted cash and cash equivalents	282,879	505,511	-	788,390
	<u>\$ 423,019</u>	<u>\$ 1,381,776</u>	<u>\$ 300,028</u>	<u>\$ 2,104,823</u>
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities				
Operating income (loss)	\$ (3,377,722)	\$ (208,311)	\$ 75,830	\$ (3,510,203)
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities:				
Purchase of capital assets included in capital and related financing activities	3,047,585	232,897	-	3,280,482
Net Cash from (used for) Operating Activities	<u>\$ (330,137)</u>	<u>\$ 24,586</u>	<u>\$ 75,830</u>	<u>\$ (229,721)</u>

## **Note 1 - Summary of Significant Accounting Policies**

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

### **A. Financial Reporting Entity**

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

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

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

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

### **B. Basis of Presentation**

#### **Government-Wide Financial Statements**

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



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

### **Fund Financial Statements**

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

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

The funds of the City of Webster are described below:

### **Governmental Funds**

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

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

- **Liquor, Lodging and Dining Gross Receipts Tax Fund** – To account for an additional one percent sales tax on the gross receipts of lodging, alcoholic beverages, prepared food, and admissions, which tax shall be used for the purpose of land acquisition, architectural fees, constructions costs, payments for civic center, auditorium, or athletic facilities buildings including the promotion of advertising of the City (SDCL 10-52A-2). This is a major fund.
- **Community Development Fund** – To account for resources to be loaned, or are loaned, to businesses which will be repaid over a period of time. This is a major fund.
- The remaining special revenue funds are reported in the aggregate in the nonmajor governmental funds column on the fund financial statements: Active Living Trail Fund, Library Fines Fund, Fire Department Fund, Golf Course Caddie Fund, and Diamond Trust Fund. These are not major funds.

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

- Pool Debt Service Fund – To account for property taxes which may be used only for the payment of the debt principal, interest and related costs. This is a major fund.

### **Proprietary Funds**

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

The City reports the following enterprise funds:

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

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

### **C. Measurement Focus and Basis of Accounting**

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

#### **Measurement Focus**

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

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

## **Basis of Accounting**

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit, or results in an obligation, that covers a period greater than the period in which the cash transaction or event occurred. Such report balances include restricted cash and cash equivalents and interfund advances and borrowings arising from the use of a pooled cash account.

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

## **D. Deposits**

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

## **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 would be required to be eliminated or reclassified. The City did not have any interfund receivables and payables which required elimination as of December 31, 2022.

## **F. Capital Assets**

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

## **G. Long-Term Liabilities**

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

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

#### **H. Program Revenues**

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

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

#### **I. Proprietary Funds Revenue and Expense Classifications**

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

#### **J. Cash and Cash Equivalents**

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

#### **K. Equity Classifications**

##### **Government-Wide Statements**

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

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

## **Fund Financial Statements**

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

### **L. Application of Net Position and Fund Balance**

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

### **M. Fund Balance Classification Policies and Procedures**

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

- **Nonspendable Fund Balance** – Amounts that are in nonspendable form (such as inventory) or are required to be maintained intact.
- **Restricted Fund Balance** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed Fund Balance** – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint. The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.
- **Assigned Fund Balance** – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).
- **Unassigned Fund Balance** – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Liquor, Lodging, and Dining Gross Receipts Tax Fund	Sales taxes
Community Development Fund	Contributions and Repayment of loans

## 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, 2022, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2022, are as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 620,037
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	<u>2,792,526</u>
	<u><u>\$ 3,412,563</u></u>

The City's carrying amount of deposits at December 31, 2022, is as follows:

Cash and cash equivalents	\$ 2,417,952
Restricted cash and cash equivalents	<u>788,390</u>
	<u><u>\$ 3,206,342</u></u>

## **Investments**

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

As of December 31, 2022, the City did not have any investments.

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

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

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

## **Note 3 - Property Taxes**

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

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

## **Note 4 - Retirement Plan**

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer, hybrid defined-benefit plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

## Benefits Provided

SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation 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. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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 enacted 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 3<sup>rd</sup> 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 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

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



### Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6% of salary; Class B judicial members, 9% of salary; and Class B public safety members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions made to the SDRS for the years ended December 31, 2022, 2021, and 2020, were \$53,490, \$53,084, and \$49,372, respectively, equal to the required contributions each year.

### Pension Liability (Asset)

At June 30, 2022, SDRS is 100.10% funded and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System as of the measurement period ending June 30, 2022, and reported by the City of Webster as of December 31, 2022, are as follows:

Proportionate share of pension liability	\$ 5,227,525
Less proportionate share of net position restricted for pension benefits	<u>5,231,025</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (3,500)</u></u>

At December 31, 2022, the City's proportionate share is a liability (asset) of \$(3,500) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City's proportion was 0.037031%, which is a decrease of 0.0010940% from its proportion measured as of June 30, 2021. The City's proportionate share net pension liability (asset) is not reported in financial statements shown under the modified cash basis of accounting.

### Actuarial Assumptions

The total pension liability (asset) in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%
Future COLAs	2.1%.

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65

Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above

Public Safety Members: PubS-2010, 102% of rates at all ages

Beneficiaries:

Pub G-2010 contingent survivor mortality table

Disabled Members

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

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 weighing 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, 2022, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	2.0%	0.4%
	<u>100.0%</u>	

### Discount Rate

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

### Sensitivity of Liability (Asset) to Changes in the Discount Rate

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension liability (asset)	\$ 726,673	\$ (3,500)	\$ (600,243)

### Pension Plan Fiduciary Net Position

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

### Note 5 - Significant Contingencies - Litigation

At December 31, 2022, the City was not involved in any litigation that would be material to the financial statements.

**Note 6 - Restricted Net Position**

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

Fund	Restricted By	Amount
Cemetery	State Law	\$ 45,934
Fire Hall Debt Service	Contractual	15,356
Liquor, Lodging, and Dining		
Gross Receipts Sales Tax Fund	State Law	275,049
Pool Debt Service Fund	State Law	37,291
Community Development Fund	State Law	187,007
Active Living Trail Fund	State Law	43,351
Library Fines Fund	State Law	17,000
Fire Department Fund	State Law	12,593
Golf Course Caddie Fund	State Law	8,840
Diamond Trust Fund	State Law	109,539
Water Fund	Contractual	282,879
Sewer Fund	Contractual	505,511

**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 year ended December 31, 2022, the City managed its risks as follows:

**Employee Health Insurance**

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a \$2,000,000 lifetime maximum payment per person.

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

### **Liability Insurance**

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members, and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information, and to obtain lower costs for that coverage. The City's responsibility is to promptly report to, and cooperate with, the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a members' annual operating contribution, to provide liability coverage detailed below, under 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, automobile liability, law enforcement liability, and physical damage, property, and boiler and machinery. The City purchases airport bodily injury and property damage liability insurance and surety bond coverage from a commercial insurance carrier.

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

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

### **Workers' Compensation**

The City joined the South Dakota Municipal League Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the fund is to formulate, develop and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the fund to resolve any workers' compensation claims. The City pays an annual premium to provide workers' compensation coverage for its employees under a self-funded program, and the premiums are accrued based on the ultimate cost of the experience-to-date of the fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual, per incident.

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

### **Unemployment Benefits**

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

### **Note 8 - Commitments**

During 2020, the City approved a Water and Sewer Improvement Project and entered into a contract for engineering services. As of December 31, 2022, the remaining commitment amount on the engineering services was \$310,795. During 2021, the City entered into a contract for construction services for the Water and Sewer Improvement Project. As of year-end, the remaining commitment amount on construction services was \$3,109,237. Subsequent to year-end, the City approved change orders on this project for approximately \$527,000. This project will be paid for by SRF Clean and Drinking Water Loans along with grant awards.

Subsequent to year-end, the City approved an additional Water Project and Wastewater and Stormwater Project. Total commitments of approximately \$2,025,000 for the Water Project and \$3,420,000 for the Wastewater and Stormwater Project were committed to two contractors. These projects will be paid for by SRF Clean and Drinking Water Loans.

During 2021, the City approved an Airport Hanger Construction Project and entered into a contract for construction services. As of year-end, the remaining commitment amount was \$8,326.

During 2022, the City approved an Airport Environment Project and entered into a contract for engineering services. As of December 31, 2022, the remaining commitment amount on the engineering services was \$29,250.

### **Note 9 - Interfund Transactions**

During 2022, the City made the following transfers:

- The General Fund transferred \$9,400 to the Pool Debt Service Fund to cover debt payments.

### **Note 10 - Related Party Transactions**

During 2022, the City purchased \$11,011 of supplies from a local store which is owned by the Mayor.



Supplementary Information  
December 31, 2022

**City of Webster**

City of Webster

Schedule of Employer's Share of Net Pension Liability (Asset) and Employer's Contribution  
Year Ended December 31, 2022

Pension Plan	Fiscal Year Ending	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2022	0.0370%	\$ (3,500)	\$ 793,293	0.4%	100.10%
SDRS	6/30/2021	0.0381%	(291,972)	783,317	37.3%	105.52%
SDRS	6/30/2020	0.0371%	(1,612)	736,595	0.2%	100.04%
SDRS	6/30/2019	0.0390%	(4,131)	750,877	0.6%	100.09%
SDRS	6/30/2018	0.0376%	(876)	704,823	0.1%	100.02%
SDRS	6/30/2017	0.0366%	(3,319)	674,029	0.5%	100.1%
SDRS	6/30/2016	0.0373%	125,956	635,955	19.8%	96.89%
SDRS	6/30/2015	0.0362%	(153,734)	601,454	25.6%	104.1%

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

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2022	\$ 53,490	\$ 53,490	\$ -	\$ 809,338	6.6%
SDRS	12/31/2021	53,084	53,084	-	804,180	6.6%
SDRS	12/31/2020	49,372	49,372	-	748,914	6.6%
SDRS	12/31/2019	49,069	49,069	-	740,854	6.6%
SDRS	12/31/2018	48,489	48,489	-	730,358	6.6%
SDRS	12/31/2017	45,913	45,913	-	691,754	6.6%
SDRS	12/31/2016	43,496	43,496	-	655,750	6.6%
SDRS	12/31/2015	41,629	41,629	-	624,769	6.7%

\*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 Webster  
Schedule of Changes in Notes and Bonds Payable  
Year Ended December 31, 2022

<u>Governmental Activities</u>	<u>Notes and Bonds Payable 1/1/22</u>	<u>Add New Debt</u>	<u>Less Forgiven Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/22</u>
Governmental Long-Term Debt					
Notes payable	\$ 111,404	\$ -	\$ -	\$ (30,633)	\$ 80,771
Swimming pool note	1,380,000	-	-	(115,000)	1,265,000
Fire hall construction note	746,894	-	-	(17,372)	729,522
Contract for deed	9,605	-	-	(2,394)	7,211
Enterprise Notes and Bonds Payable					
Liquor store note	185,359	-	-	(7,256)	178,103
State Revolving Fund loan					
Drinking Water 2020	809,937	2,508,577	(925,865)	-	2,392,649
Clean Water 2020	137,056	187,196	-	-	324,252
USDA RD loan - lagoon	1,252,952	-	-	(56,623)	1,196,329
	<u>\$ 4,633,207</u>	<u>\$ 2,695,773</u>	<u>\$ (925,865)</u>	<u>\$ (229,278)</u>	<u>\$ 6,173,837</u>

City of Webster  
Budgetary Comparison Schedule—General Fund  
Year Ended December 31, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues				
310 Taxes				
311 General property taxes	\$ 546,562	\$ 546,562	\$ 541,582	\$ (4,980)
313 General sales and use taxes	998,000	998,000	1,227,693	229,693
314 Gross receipts business taxes	20,000	20,000	15,209	(4,791)
315 Amusement taxes	300	300	-	(300)
319 Penalties and interest on delinquent taxes	2,000	2,000	1,777	(223)
Total taxes	1,566,862	1,566,862	1,786,261	219,399
320 Licenses and permits	8,000	8,000	9,464	1,464
330 Intergovernmental revenue				
331 Federal grants	-	-	674,861	674,861
334 State grants	-	-	4,000	4,000
335 State shared revenue				
335.01 Bank franchise tax	5,000	5,000	5,931	931
335.02 Motor vehicle commercial prorated	7,000	7,000	5,811	(1,189)
335.03 Liquor tax reversion	12,000	12,000	12,109	109
335.04 Motor vehicle licenses (5%)	20,000	20,000	23,296	3,296
335.08 Local government highway and bridge fund	68,000	68,000	71,197	3,197
338 County shared revenue				
338.01 County road tax (25%)	7,000	7,000	26,524	19,524
338.02 County road and bridge tax (25%)	18,000	18,000	-	(18,000)
338.03 County wheel tax	8,000	8,000	7,972	(28)
339 Other intergovernmental revenues	-	-	2,187	2,187
Total intergovernmental revenue	145,000	145,000	833,888	688,888
340 Charges for goods and services				
341 General government	4,000	4,000	47,023	43,023
342 Public safety	7,000	7,000	7,855	855
346 Culture and recreation	111,000	111,000	180,938	69,938
348 Cemetery	12,000	12,000	18,250	6,250
Total charges for goods and services	134,000	134,000	254,066	120,066
350 Fines and forfeits				
351 Court fines and costs	2,000	2,000	500	(1,500)
353 Parking meter fines	-	-	1,335	1,335
Total fines and forfeits	2,000	2,000	1,835	(165)
360 Miscellaneous revenue				
361 Investment earnings	1,000	1,000	3,122	2,122
362 Rentals	10,000	10,000	18,546	8,546
363 Special assessments	500	500	1,219	719
367 Contributions and donations from private sources	5,000	5,000	11,897	6,897
369 Other	3,000	3,000	3,365	365
Total miscellaneous revenue	19,500	19,500	38,149	18,649
Total revenues	1,875,362	1,875,362	2,923,663	1,048,301

City of Webster  
Budgetary Comparison Schedule—General Fund  
Year Ended December 31, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Expenditures				
410 General government				
411 Legislative	17,000	17,000	16,909	91
411.5 Contingency	100,000	100,000		
Amount transferred	-	(100,000)	-	-
413 Elections	1,000	1,000	-	1,000
414 Financial administration	197,900	226,700	226,219	481
419 Other	71,000	123,690	122,942	748
Total general government	386,900	368,390	366,070	2,320
420 Public safety				
421 Police	405,800	484,209	484,415	(206)
422 Fire	42,200	47,700	47,698	2
Total public safety	448,000	531,909	532,113	(204)
430 Public works				
431 Highways and streets	579,900	582,364	581,840	524
435 Airport	63,400	820,762	605,462	215,300
437 Cemetery	45,000	45,000	42,253	2,747
Total public works	688,300	1,448,126	1,229,555	218,571
450 Culture and recreation				
451 Recreation	281,700	387,300	387,203	97
452 Parks	132,500	149,500	94,543	54,957
455 Library	75,000	109,800	103,171	6,629
Total culture and recreation	489,200	646,600	584,917	61,683
460 Conservation and development				
46300 Urban Redevelopment & Housing	3,000	3,000	137	2,863
Total conservation and development	3,000	3,000	137	2,863
470 Debt service	75,500	75,500	77,574	(2,074)
Total expenditures	2,090,900	3,073,525	2,790,366	283,159
Other Financing Sources (Uses)				
391.01 Transfers in	115,600	115,600	-	(115,600)
391.04 Compensation for loss/damage to capital assets	-	-	43,263	43,263
511 Transfer out	(12,600)	(12,600)	(9,400)	3,200
Total other financing sources	103,000	103,000	33,863	(69,137)
Net Change in Fund Balance	(112,538)	(1,095,163)	167,160	1,262,323
Fund Balance - Beginning	243,689	243,689	243,689	-
Fund Balance - Ending	\$ 131,151	\$ (851,474)	\$ 410,849	\$ 1,262,323

City of Webster

Budgetary Comparison Schedule—Liquor, Lodging and Dining Gross Receipts Tax Fund

Year Ended December 31, 2022

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	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 67,000	\$ 67,000	\$ 88,906	\$ 21,906
Total taxes	67,000	67,000	88,906	21,906
360 Miscellaneous revenue				
361 Investment earnings	500	500	981	481
Total miscellaneous revenue	500	500	981	481
Total revenues	67,500	67,500	89,887	22,387
Expenditures				
410 General government				
419 Other	7,000	7,000	-	7,000
430 Public works				
439 Transit	3,000	3,000	3,500	500
450 Culture and recreation				
452 Parks	2,500	2,500	2,290	210
456 Auditorium	25,000	25,000	25,000	-
460 Conservation and development:				
466 Economic opportunity	30,000	30,000	35,000	(5,000)
Total expenditures	67,500	67,500	65,790	2,710
Net Change in Fund Balance	-	-	24,097	25,097
Fund Balance - Beginning	250,952	250,952	250,952	-
Fund Balance - Ending	\$ 250,952	\$ 250,952	\$ 275,049	\$ 25,097

City of Webster  
Budgetary Comparison Schedule—Community Development Fund  
Year Ended December 31, 2022

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	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues				
360 Miscellaneous revenue				
361 Investment earnings	\$ 2,500	\$ 2,500	\$ 530	\$ (1,970)
Total miscellaneous revenue	2,500	2,500	530	(1,970)
Total revenues	2,500	2,500	530	(1,970)
Expenditures				
460 Conservation and development:				
466 Economic opportunity	52,500	52,500	-	52,500
Total expenditures	52,500	52,500	-	52,500
Net Change in Fund Balance	(50,000)	(50,000)	530	50,530
Fund Balance - Beginning	186,477	186,477	186,477	-
Fund Balance - Ending	<u>\$ 136,477</u>	<u>\$ 136,477</u>	<u>\$ 187,007</u>	<u>\$ 50,530</u>

City of Webster  
Combining Balance Sheet—Modified Cash Basis—Nonmajor Governmental Funds  
December 31, 2022

	Active Living Trail Fund	Library Fines Fund	Fire Department Fund	Golf Course Caddie Fund	Diamond Trust Fund	Total Nonmajor Governmental Funds
Assets						
Cash and cash equivalents	\$ 43,351	\$ 17,000	\$ 12,593	\$ 8,840	\$ 109,539	\$ 191,323
	<u>\$ 43,351</u>	<u>\$ 17,000</u>	<u>\$ 12,593</u>	<u>\$ 8,840</u>	<u>\$ 109,539</u>	<u>\$ 191,323</u>
Fund Balances						
264 Restricted	\$ 43,351	\$ 17,000	\$ 12,593	\$ 8,840	\$ 109,539	\$ 191,323
	<u>\$ 43,351</u>	<u>\$ 17,000</u>	<u>\$ 12,593</u>	<u>\$ 8,840</u>	<u>\$ 109,539</u>	<u>\$ 191,323</u>

City of Webster

Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Nonmajor Governmental Funds  
Year Ended December 31, 2022

	Active Living Trail Fund	Library Fines Fund	Fire Department Fund	Golf Course Caddie Fund	Diamond Trust Fund	Total Nonmajor Governmental Funds
Revenues						
360 Miscellaneous revenue						
361 Investment earnings	\$ 1,010	\$ -	\$ -	\$ -	\$ -	\$ 1,010
367 Contributions and donations from private sources	13,999	2,887	23,995	13,458	108,682	163,021
Total miscellaneous revenue	15,009	2,887	23,995	13,458	108,682	164,031
Total revenues	15,009	2,887	23,995	13,458	108,682	164,031
Expenditures						
420 Public safety						
422 Fire	-	-	17,495	-	-	17,495
Total public safety	-	-	17,495	-	-	17,495
450 Culture and recreation						
451 Recreation	-	-	-	12,646	24,656	37,302
452 Parks	16	-	-	-	-	16
455 Libraries	-	2,963	-	-	-	2,963
Total culture and recreation	16	2,963	-	12,646	24,656	40,281
485 Capital outlay	-	-	-	-	69,694	69,694
Total expenditures	16	2,963	17,495	12,646	94,350	127,470
Net Change in Fund Balance	14,993	(76)	6,500	812	14,332	36,561
Fund Balance - Beginning	28,358	17,076	6,093	8,028	95,207	154,762
Fund Balance - Ending	\$ 43,351	\$ 17,000	\$ 12,593	\$ 8,840	\$ 109,539	\$ 191,323

**Note 1 - Budgets and Budgetary Accounting**

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

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

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

The City did not encumber any amounts at December 31, 2022.

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

**Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences**

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



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

#### **Changes of Benefit Provision**

The June 30, 2022, Actuarial Valuation reflects numerous changes to the actuarial assumptions as a result of an experience analysis completed since the June 30, 2021 Actuarial Valuation. In addition, two changes in actuarial methods have been implemented since the prior valuation. The details of the changes since the last valuation are as follows:

#### **Changes of Benefit Provision**

During the 2022 Legislative Session no significant SDRS benefit changes were made and gaming enforcement agents became Class B Public Safety Members.

#### **Changes of Assumptions**

As a result of an experience analysis covering the period from July 1, 2016 to June 30, 2021, and presented to the SDRS Board of Trustees in April and June 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2022, actuarial valuation.

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%.

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification, and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

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%.

As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021, Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027, Actuarial Valuation.

#### **Actuarial Method Changes**

Actuarial method changes with minor impact were implemented for this valuation after recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Account are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.



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

The City Council  
City of Webster  
Webster, 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, each major fund, and the aggregate remaining fund information of the City of Webster (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 6, 2023. The statements were prepared on the modified cash basis of accounting, a basis of accounting other than accounting principles generally accepted in the United States of America. In our report, we issued an adverse opinion on the aggregate discretely presented component unit because the financial statements did not include the City's legally separate component unit.

**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 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 significant deficiencies.

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 2022-001 and 2022-002 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2022-003.

### **City of Webster'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 accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

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

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

Aberdeen, South Dakota  
September 6, 2023



**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 Webster  
Britton, South Dakota

**Report on Compliance for the Major Federal Program**

***Opinion on the Major Federal Program***

We have audited City of Webster'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, 2022. 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, 2022.

***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 opinions 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**

*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. 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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 as required by South Dakota Codified Law 4-11-11, this report is a matter of public record, and its distribution is not limited.

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

Aberdeen, South Dakota  
September 6, 2023

Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards  
December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-through Entity Identifying Number	Federal Financial Assistance Listing	Expenditures
U.S. Department of Transportation			
Direct Federal Funding			
COVID-19 Airport Improvement Program	N/A	20.106	\$ 18,385
Airport Improvement Program (3-46-0059-09-2017)	N/A	20.106	<u>483,663</u>
U.S. Department of Agriculture:			
Direct Federal Funding			
Community Facilities Loans and Grants Cluster			
Community Facilities Loan and Grants	N/A	10.766	<u>746,894</u>
Total Federal Financial Assistance			<u><u>\$ 1,248,942</u></u>

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2022. 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 modified accrual 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 Organization does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

**Note 4 - Loan Programs**

Expenditures reported in this schedule consist of the beginning of the year outstanding loan balance plus advances made on the loan during the year. The outstanding balance at December 31, 2022, was \$729,522.



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**Section I – Summary of Auditor’s Results**

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**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 programs:	
Material weakness(es) identified?	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	No

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Community Facilities Loans and Grants	10.766
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

\* Unmodified except Adverse for aggregate discretely presented component unit

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**Section II – Financial Statement Findings**

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**2022-001 - Lack of Segregation of Duties**

**Material Weakness**

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

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

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

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

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

*Views of Responsible Officials:* Management agrees with the finding.

**2022-002 - Preparation of Financial Statements and Schedule of Expenditures of Federal Awards, Footnotes, and Propensity for Audit Adjustments**

**Material Weakness**

*Criteria:* The City of Webster's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, and 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 the modified cash basis of accounting.

*Condition:* The City requested the external auditors to prepare the financial statements and related notes, and the schedule of expenditures of federal awards for the year ended December 31, 2022. As a part of the financial statement preparation process, we proposed both material and non-material audit adjustments that were not identified as a result of the City's existing internal controls and, therefore, would result in a material misstatement of the City's financial statements if not recorded.

*Cause:* The City does not have adequate staff trained to prepare financial statements and the related footnotes, and schedule of expenditures of federal awards and causes 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. The need for proposed audit adjustments and correction of beginning net position indicates that the City's interim financial information might not be materially correct, which may affect management decisions made during the course of the year.

*Recommendation:* This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

*Views of Responsible Officials:* Management agrees with the finding.

## **2022-003 – Violations of South Dakota Codified Law (SDCL)**

### **Significant Deficiency and Non-Compliance**

*Criteria:* The City of Webster's control structure should be such to ensure compliance with South Dakota Codified Law (SDCL) for municipal finances. SDCL 9-22-2 provides for the requirements of the budget and the need for appropriate sums of money necessary to meet all lawful expenses.

*Condition:* The City overspent the conservation and development line in the Liquor, Lodging and Dining Gross Receipts Tax Fund.

*Cause:* A lack of oversight in the control processes, limited staff size, and general unfamiliarity with the applicable SDCL's relating to the above could result in the City not being materially compliant with applicable SDCL's.

*Effect:* The overspending of line items in the budget could result in an overall overspending of the fund.

*Recommendation:* We recommend the City review the budget lines throughout the year and, if needed, a budget amendment be completed and approved by the Council as required under state law.

*Views of Responsible Officials:* Management agrees with the finding.

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## **Section III – Federal Award Findings and Questioned Costs**

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None reported.

# City of Webster

*Heart of the South Dakota Lake Region*

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Webster, South Dakota 57274

Telephone  
(605) 345-3241

Management's Response to Auditor's Findings:  
Summary Schedule of Prior Audit Findings and  
Corrective Action Plan  
December 31, 2022

Prepared by Management of  
**City of Webster**

The City of Webster respectfully submits the following summary of prior audit findings and corrective action plan for the year ended December 31, 2022.

## Summary Schedule of Prior Audit Findings

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### *Finding 2021-001*

*Initial Fiscal Year Finding Occurred:* Unknown

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

*Status:* Ongoing. Due to cost considerations and the size of the City, it is not cost effective to hire additional staff to facilitate the adequate separation of duties.

### *Finding 2021-002*

*Initial Fiscal Year Finding Occurred:* 2011

*Finding Summary:* The City requested the external auditors to prepare the financial statements and related notes, and the schedule of expenditures of federal awards for the year ended December 31, 2022. As a part of the financial statement preparation process, the auditors proposed both material and non-material audit adjustments that were not identified as a result of the City's existing internal controls and, therefore, could result in a material misstatement of the City's financial statements if not recorded.

*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. WE have provided a designated member of management to review the draft financial statements and footnotes along with reviewing the proposed adjustments during the audit.

## Corrective Action Plan

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### *Finding 2022-001*

*Finding Summary:*

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

*Responsible Individuals:*

Mike Grosek, Mayor

*Corrective Action Plan:*

It is not cost effective due to the size of the City and the volume of transactions to have an internal control system designed with additional staff to facilitate the adequate separation of duties in the revenue, expenditures, payroll, and review of manual entries functions. Management and the City Council are aware of the condition and accept the relevant risks that are presented by this finding. We are aware of this finding and are attempting to provide compensating controls.

*Anticipated Completion Date:*

Ongoing

### *Finding 2022-002*

*Finding Summary:*

Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements. 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:*

Mike Grosek, Mayor

*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. We requested that our auditors, Eide Bailly LLP, prepared the financial statements, the accompanying notes to the financial statements and the SEFA as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.

*Anticipated Completion Date:*

Ongoing

### *Finding 2022-003*

*Finding Summary:*

The City overspent the conservation and development line in the Liquor, Lodging and Dining Gross Receipts Tax Fund.

*Responsible Individuals:*

Mike Grosek, Mayor

*Corrective Action Plan:*

The City does a review of the budgets throughout the year and the overspending was by line item and not by fund overall. The City will continue to review the budget to actual reports during the year to ensure that money is available for spending.

*Anticipated Completion Date:*

Ongoing