

East Dakota Water Development District

**Independent Auditor's Report
and Financial Statements**

**For the Year Ended
December 31, 2022**

East Dakota Water Development District

District Officials

December 31, 2022

Board of Directors:

Mark Anderson ----- Chairman
Gary Duffy ----- Vice-Chairman
Spencer Hawley ----- Secretary
John Moes ----- Member
Troy Larson ----- Member
Bob Kappel----- Member
Ryan Donovan ----- Member
Joedy Poppe----- Member
Jeff Barth ----- Member

Jay Gilbertson ----- Manager

East Dakota Water Development District

Table of Contents

	Page
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 <i>Government Auditing Standards</i> -----	1-2
Schedule of Prior and Current Year Audit Findings -----	3-4
Independent Auditor's Report -----	5-7
Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position – Modified Cash Basis -----	8
Statement of Activities – Modified Cash Basis -----	9
Balance Sheet – Modified Cash Basis – Governmental Funds-----	10
Statement of Revenues, Expenditures and Changes in Fund Balance Modified Cash Basis - Governmental Funds-----	11
Notes to the Financial Statements -----	12-23
Supplementary Information -----	24
Budgetary Comparison Schedule – Modified Cash Basis - General Fund-----	25
Notes to the Budgetary Comparison Schedules -----	26
Schedule of the District’s Proportionate Share of the Net Pension Liability (Asset)-----	27
Notes to the Schedule of the District’s Proportionate Share of the Net Pension Liability (Asset) -----	28-29



**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***

Board of Directors
East Dakota Water Development District
Brookings, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, and each major fund of East Dakota Water Development District, Brookings County, South Dakota, as of December 31, 2022 and for the year then ended, and the related notes to the financial statements, which collectively comprise East Dakota Water Development District’s basic financial statements and have issued our report thereon dated January 26, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered East Dakota Water Development District’s internal control over financial reporting (internal control) as a basis for determining 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 East Dakota Water Development District’s internal control. Accordingly, we do not express an opinion on the effectiveness of East Dakota Water Development District’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 to be material weaknesses.

Report on Compliance and Other Matters

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

East Dakota Water Development District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit. The District's response to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The District'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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Handwritten signature in cursive script that reads "CIO Prof LLC".

Huron, South Dakota
January 26, 2024

East Dakota Water Development District
Schedule of Prior and Current Year Audit Findings
Year Ended December 31, 2022

Schedule of Prior Year Audit Findings

Finding 2021-001 Lack of Segregation of Duties

Current status – The finding continues to exist and is restated as an effect of the Finding 2022-001

Finding 2021-002 Financial Statement Preparation

Current status – The finding continues to exist and is restated as an effect of the Finding 2022-002

Schedule of Current Year Audit Findings

Finding 2022-002 Lack of Segregation of Duties

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

Condition: East Dakota Water Development District has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls because of a lack of segregation of duties.

Cause: The District has insufficient number of staff to adequately separate duties in all areas.

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

Recommendation: Although it is recognized that number of office staff may not be large enough to permit an 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 Board exercise adequate oversight of the accounting function.

Views of Responsible Officials: The District concurs with the finding and is aware of the risk associated with limited office personal. District payroll and general accounting are being handled by a local professional accounting firm rather than being handled in-house.

Finding 2022-002 Financial Statement Preparation

Criteria: An organization's internal control structure should provide for the recording of all necessary material adjustments and the preparation of financial statements and footnotes in accordance with generally accepted accounting principles.

East Dakota Water Development District
Schedule of Prior and Current Year Audit Findings
Year Ended December 31, 2022 (Continued)

Schedule of Current Year Audit Findings (Continued)

Condition: East Dakota Water Development District does not have an internal control system designed to provide for the preparation of the financial statements being audited, including required footnotes and disclosures and all necessary material audit adjustments, in accordance with generally accepted accounting principles. The district has requested that the auditors draft the financial statements and accompanying notes to the financial statements.

Cause: East Dakota Water Development District does not have adequate staff trained to prepare the financial statements and footnotes.

Effect: This condition may affect the District's ability to report financial data in accordance with generally accepted accounting principles.

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.

Views of Responsible Officials: The District concurs with the finding and is aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce the risk.



Independent Auditor's Report

Board of Directors
East Dakota Water Development District
Brookings County, South Dakota

Report on the Audit of Financial Statements

Opinions

We have audited the accompanying modified cash basis of financial statements of the governmental activities, and each major fund of East Dakota Water Development District, Brookings County, South Dakota, as of December 31, 2022, and for the year then ended, and the related notes to the financial statements, which collectively comprise the East Dakota Water Development District's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of East Dakota Water Development District as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis for Opinions

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

Emphasis of Matter

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

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 District'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 District'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 modified cash basis of accounting financial statements that collectively comprise the District's basic financial statements. The Budgetary Comparison Schedule, and the Schedule of the Proportionate Share of the Net Pension Liability (Asset) are presented for purposes of additional analysis are not a required part of the basis financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules, and the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2024 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions or laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Huron, South Dakota
January 26, 2024

East Dakota Water Development District
Statement of Net Position – Modified Cash Basis
December 31, 2022

	<u>Primary Government Governmental Activities</u>
Assets:	
Cash and cash equivalents	<u>\$ 1,809,008</u>
Total Assets	<u>1,809,008</u>
Net Position:	
Unrestricted	<u>1,809,008</u>
Total Net Position	<u><u>\$ 1,809,008</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

East Dakota Water Development District
Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2022

Functions / Programs	Expenses	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government
			Governmental Activities
Primary Government:			
Governmental Activities:			
General	\$ 775,291	\$ --	\$ (775,291)
Project assistance	61,691	202,754	141,063
Total Governmental Activities	\$ 836,982	\$ 202,754	(634,228)
General Revenues			
Taxes:			
Property taxes			864,611
Revenue from Local Sources:			
Other			4,443
Unrestricted Investment Earnings			7,863
Total General Revenues			876,917
Change in Net Position			242,689
Net Position-Beginning of Year			1,566,319
Net Position-End of Year			\$ 1,809,008

The accompanying Notes to Financial Statements are an integral part of this statement.

East Dakota Water Development District

Balance Sheet – Modified Cash Basis

December 31, 2022

	<u>General Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 1,809,008</u>
Total Assets	<u><u>\$ 1,809,008</u></u>
Fund Balances	
Committed for project assistance to specific projects/entities	\$ 532,274
Unassigned	<u>1,276,734</u>
Total Fund Balances	<u><u>\$ 1,809,008</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

East Dakota Water Development District

Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis – Governmental Funds For the Year Ended December 31, 2022

	<u>General Fund</u>
Revenues:	
Revenue from Local Sources:	
Taxes:	
Ad valorem taxes	\$ 827,005
Prior years' ad valorem taxes	5,090
Other taxes	32,516
Investment Earnings	7,863
Intergovernmental Revenue:	
Rotating Basin Project	82,990
Water Quality Monitoring Project	119,764
Miscellaneous Revenue	4,443
Total Revenue	<u>1,079,671</u>
Expenditures:	
General:	
Board of directors	28,060
Administration	151,726
Technical Assistance	437,800
Operational Expenses	98,576
Professional Services	23,446
Capital outlay	35,683
Project Assistance	61,691
Total Expenditures	<u>836,982</u>
Net Change in Fund Balance	242,689
Fund Balance - Beginning of Year	<u>1,566,319</u>
Fund Balance - End of Year	<u><u>\$ 1,809,008</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

1. Summary of Significant Accounting Policies:

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

a. Financial Reporting Entity:

The reporting entity of East Dakota Water Development District (District) consists of the primary government (General Fund) controlled by the District's board of directors. The District is a political subdivision of the State of South Dakota. The purpose, duties, functions and other controls relating to water development districts are found in South Dakota Codified Law chapters 46A-3A through 46A-3E. The districts have a broad mandate to work to promote the conservation, development and proper management of water resources within their respective boundaries. Water development districts have no regulatory authority. The District has been in existence since 1963.

The District has no component units as defined by GASB 14.

b. Basis of Presentation:

Government-wide Statements:

The Statement of Net Position – modified cash basis and the Statement of Activities – modified cash basis display information about the reporting entity as a whole. These statements include the financial activities of the overall government. These statements distinguish the governmental activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities – modified cash basis presents a comparison between direct expenses and program revenues for each function of the District'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 of the reporting entity are organized into a fund. The fund is accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual are at least 10 percent of the corresponding total for all funds of that category or type, and

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

1. Summary of Significant Accounting Policies: (Continued)

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

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

Governmental Funds:

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

c. Measurement Focus and Basis of Accounting:

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

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

Fund Financial Statements:

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

Basis of Accounting:

In the government-wide Statement of Net Position and Statement of governmental activities are presented using a modified cash basis of accounting.

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

1. Summary of Significant Accounting Policies: (Continued)

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the District in these financial statements is:

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

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

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

d. Deposits and Investments:

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

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities, governmental are presented using a modified cash basis of accounting. The District has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating those assets where appropriate, so any capital assets owned by the District and the related depreciation are not reported on the financial statements of the District.

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

1. Summary of Significant Accounting Policies: (Continued)

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, compensated absences. As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using a modified cash basis of accounting. The District has not elected to modify their cash basis presentation by recording long-term debt or long-term liabilities arising from cash transactions, so any outstanding long-term debt or long-term liabilities are not reported on the financial statements of the District. The District does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities, the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt. The District has presented related notes that include details of any outstanding Long-Term Debt in Note 4.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the District'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.

h. Equity Classifications:

Government-Wide Statements:

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

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

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

1. Summary of Significant Accounting Policies: (Continued)

i. Application of Net Position:

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

j. Fund Balance Classification Procedures:

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

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

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

k. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

2. Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk:

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The District’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

Investments – In general, SDCL 4-5-6 permits District 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 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 may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk – State law limits eligible investments for the District, as discussed above. The District does not have any investments.

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the Districts deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2022, none of the District’s deposits in financial institutions were exposed to custodial credit risk.

Custodial Credit Risk - Investments – The risk that, in the event of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer. All of the District’s investments are in a savings account.

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

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

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

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 the following 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 District is permitted by several state statutes to levy taxes, not to exceed thirty cents per \$1,000 of taxable valuation on taxable real property in the District.

4. Long-Term Debt:

Compensated Absences is comprised of annual leave and sick leave earned by the employee. Upon termination, employees are entitled to receive compensation for their accrued balances.

	<u>Balance 12/31/2021</u>	<u>Balance Increases</u>	<u>Balance Decreases</u>	<u>Balance 12/31/2022</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	<u>\$ 97,122</u>	<u>\$ 27,302</u>	<u>\$ 25,863</u>	<u>\$ 98,561</u>	<u>\$ 50,000</u>

5. Leases:

The District has a lease agreement with Agri-Cultures Inc., for office space. The District paid \$1,725 monthly, until the agreement expired October 31, 2022. At that point, a new lease commenced November 1, 2022 and matures October 31, 2032 with monthly payments of \$2,650.

Minimum lease payments for the operating leases at December 31, 2022 are as follows:

2023	\$ 22,550
2024	\$ 31,800
2025	\$ 31,800
2026	\$ 31,800
2026	\$ 31,800
2028-2032	\$ 159,000

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

6. Risk Management:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2022, the District managed its risks as follows:

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

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

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

Workers' Compensation – The District purchases liability insurance for workers' compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

7. Pension Plan:

a. Plan Information:

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 pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

b. Benefits Provided:

SDRS has four different classes of employees, 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 Regulations members.

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

7. Pension Plan: (Continued)

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 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, 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.

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

7. Pension Plan: (Continued)

c. 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, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2022, 2021, and 2020 were \$26,082, \$26,265, and \$23,957, respectively, equal to the required contributions each year.

d. Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources to Pensions:

At June 30, 2022, SDRS is 100.1% funded and accordingly has a net pension (asset). The proportionate share of the components of the net pension (asset) of the South Dakota Retirement System, for the District as of the measurement period ending June 30, 2022 and reported by the District as of December 31, 2022 are as follows:

Proportionate share of pension liability	\$ 2,528,145
Less proportionate share of net position restricted for pension benefits	<u>2,529,838</u>
Proportionate share of net pension (asset)	<u>\$ (1,693)</u>

The net pension liability (asset) was measured as of June 30, 2022 and the total pension (asset) used to calculate the net pension liability (asset) was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the District's proportion was .01790900% which is a decrease of .0013770% from its proportion measured as of June 30, 2021.

e. 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	2.10%

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

7. Pension Plan: (Continued)

Mortality Rates:

- 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 Retirees: PubS-2010, 102% of rates at all ages
- Beneficiaries:
 - PubG-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.

East Dakota Water Development District

Notes to the Financial Statements

December 31, 2022

7. Pension Plan: (Continued)

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%
Total	<u>100.0%</u>	

f. Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from 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).

g. Sensitivity of Liability (Asset) to Changes in the Discount Rate:

The following presents the District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, as well as what the District'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>
District's proportionate share of the net pension liability (asset)	\$ 351,434	\$ (1,693)	\$ (290,291)

h. Pension Plan Fiduciary Net Position:

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

Supplementary Information

East Dakota Water Development District
 Budgetary Comparison Schedule – Modified Cash Basis - General Fund
 December 31, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>Budgetary Basis</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad valorem taxes	\$ 849,000	\$ 849,000	\$ 827,005	\$ (21,995)
Prior years' ad valorem taxes	--	--	5,090	5,090
Other taxes	3,000	3,000	32,516	29,516
Investment Earnings	5,000	5,000	7,863	2,863
Intergovernmental Revenue:				
Rotating Basin Project	200,000	200,000	82,990	(117,010)
Water Quality Monitoring Project	684,342	684,342	119,764	(564,578)
Brookings TMDL - Storm Drainage	150,000	150,000	--	(150,000)
Miscellaneous Revenue	--	--	4,443	4,443
Total Revenue	<u>1,891,342</u>	<u>1,891,342</u>	<u>1,079,671</u>	<u>(811,671)</u>
Expenditures:				
General				
Board of directors	41,677	41,677	28,060	13,617
Administration	177,270	177,270	151,726	25,544
Technical Assistance	366,521	366,521	437,800	(71,279)
Operational Expenses	156,100	156,100	98,576	57,524
Professional Services	49,000	49,000	23,446	25,554
Capital outlay	68,500	68,500	35,683	32,817
Project Assistance	882,274	882,274	61,691	820,583
Contingency	150,000	150,000	--	150,000
Total Expenditures	<u>1,891,342</u>	<u>1,891,342</u>	<u>836,982</u>	<u>1,054,360</u>
Net Change in Fund Balance	--	--	242,689	242,689
Fund Balance - Beginning of Year	<u>1,566,319</u>	<u>1,566,319</u>	<u>1,566,319</u>	<u>--</u>
Fund Balance - End of Year	<u>\$ 1,566,319</u>	<u>\$ 1,566,319</u>	<u>\$ 1,809,008</u>	<u>\$ 242,689</u>

East Dakota Water Development District
Notes to the Required Supplementary Information
December 31, 2022

1. Budgets and Budgetary Accounting:

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

- a. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in letter d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total district budget and may be transferred by resolution of the board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
- e. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
- f. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys 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.
- g. Formal budgetary integration is employed as a management control device during the year for the General Fund.
- h. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

2. Other Comprehensive Basis of Accounting Modified Cash Basis/Budgetary Accounting Basis Differences:

The financial statements prepared in conformity with USGAAP applied within the context of 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.

East Dakota Water Development District
Schedule of the Proportionate Share of the Net Pension Liability (Asset)
South Dakota Retirement System
December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.0179090%	0.0192860%	0.0175360%	0.0187240%	0.0180200%	0.0181010%	0.0134020%	0.0125800%
District's proportionate share of net pension liability (asset)	\$ (1,693)	\$ (147,698)	\$ (762)	\$ (1,984)	\$ (420)	\$ (1,643)	\$ 45,270	\$ (53,357)
District's covered-employee payroll	\$ 421,965	\$ 437,660	\$ 386,182	\$ 398,114	\$ 396,131	\$ 367,771	\$ 257,479	\$ 229,688
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.40%	33.75%	0.20%	0.50%	0.11%	0.45%	17.58%	23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.10%	105.52%	100.04%	100.09%	100.02%	100.10%	96.89%	104.10%

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

**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 District will present information for those years for which information is available.

East Dakota Water Development District
Notes to Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability (Asset)
December 31, 2022

Changes from Prior Valuation

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:

Benefit Provision Changes

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

Actuarial Assumption Changes

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%.

East Dakota Water Development District
Notes to Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability (Asset)
December 31, 2022 (Continued)

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 7 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.