



Financial Statements  
December 31, 2022 and 2021

The Housing & Redevelopment  
Commission of the City of Watertown,  
South Dakota

# The Housing & Redevelopment Commission of the City of Watertown, South Dakota

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December 31, 2022 and 2021

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## Independent Auditor's Report

To the Board of Commissioners  
The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Watertown, South Dakota

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the business-type activities of The Housing & Redevelopment Commission of the City of Watertown, South Dakota, a component unit of the City of Watertown, South Dakota, (the Commission) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission, as of December 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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 Commission, 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 opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and 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.

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 Commission'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 opinion. 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 Commission'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 Commission'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.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of net pension liability (asset) and schedule of pension contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The financial data schedule, as required by U.S. Department of Housing and Urban Development, along with the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations *Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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, the financial data schedule and schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2023, on our consideration of the Commission'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 Commission'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 Commission's internal control over financial reporting and compliance.



Aberdeen, South Dakota  
June 7, 2023

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2022 and 2021

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This section of The Housing and Redevelopment Commission of the City of Watertown, South Dakota's (the Commission) annual financial report presents management's discussion and analysis of the Commission's financial performance during the years ended December 31, 2022 and 2021. This analysis is meant to provide additional insight into the Commission's activities and should be read in conjunction with the Independent Auditor's Report, financial statements, notes to the financial statements, and supplementary information.

### **The Commission**

The Commission was established in 1971 for the purpose of providing housing and housing assistance to very-low and low-income elderly, disabled and families, through low-rent housing programs designated to provide decent, safe, affordable, and sanitary housing. The Commission operates three separate programs for income-eligible housing. These programs are Public Housing, Section 8 Housing Choice Voucher Program, and Governors Houses. A breakdown of the individual programs' financial information can be found in the supplementary information section of the following financial statements.

The Commission's financial statements include the operations of funds that the Commission has established to achieve its purpose. The activity of the Commission is accounted for as a proprietary-type fund. The Commission is a component unit of the City of Watertown, South Dakota, and its financial statements are included in the Annual Report of the City of Watertown.

### **Financial Highlights for 2022**

- Total assets of the Commission increased \$273,410 as of December 31, 2022.
- Total liabilities of the Commission increased \$103,946 as of December 31, 2022.
- Net position of the Commission increased by \$227,983 as of December 31, 2022.
- Cash and cash equivalents of the Commission increased by \$303,753 as of December 31, 2022.
- Unrestricted net position of the Commission increased by \$248,733 as of December 31, 2022.

### **Financial Highlights for 2021**

- Total assets of the Commission increased \$146,396 as of December 31, 2021.
- Total liabilities of the Commission decreased \$5,714 as of December 31, 2021.
- Net position of the Commission increased by \$250,286 as of December 31, 2021.
- Cash and cash equivalents of the Commission increased by \$146,608 as of December 31, 2021.
- Unrestricted net position of the Commission increased by \$140,682 as of December 31, 2021.

### **Capital Assets**

As of December 31, 2022 and 2021, the Commission's investment in capital assets for its business-type activities was \$887,841 and \$900,406, respectively, (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment.

The Commission withdrew \$160,377 in capital funds in the year 2022 used for repairs and building improvements. In 2021, the Commission withdrew \$150,033 in capital funds which were used for a sky light project.

**Long-term Liabilities**

As of December 31, 2022 and 2021, long-term liabilities are \$0.

**PROGRAM REVENUES AND EXPENSES BY MAJOR SOURCE AND CATEGORY**

**Public Housing - 2022**

Total revenues increased by \$38,128 and expenses increased by \$54,703. The increase in revenue is due to an increase in tenant rent revenue as well as HUD operating grant monies and capital fund monies Expenses increased because of increase in operating expenses due to inflation rates being so high.

**Public Housing - 2021**

Total revenues increased by \$46,964 and expenses decreased by \$52,282. The increase in revenue is due to an increase in tenant rent revenue as well as HUD operating grant monies and capital fund monies We would have seen a decrease in income without these dollars due to rental income being less than 2019. Expenses decreased based on impacts for 2020 COVID funding in 2020 not received in 2021.

**Capital Funds - 2022**

Capital funds in the amount of \$160,377 were received in 2022. The capital funds drawn down were from the year 2020 grant amount. This amount was an increase of \$10,344 from December 31, 2021. The Commission has drawn down the 2021 Capital Fund grant in 2023.

**Capital Funds - 2021**

Capital funds in the amount of \$150,033 were received in 2022. The capital funds drawn down were from the year 2019 grant amount. This amount was an increase of \$14,457 from December 31, 2021. The Commission has drawn down the 2020 Capital Fund grant in 2022.

**Section 8 Vouchers - 2022**

Total revenues decreased by \$21,132 and total expenses decreased by \$4,503 from the prior year. The revenue decrease is due to the decrease in HUD housing assistance payments and the extra dollars received last year in Cares Funding.

**Section 8 Vouchers - 2021**

Total revenues decreased by \$102,919 and total expenses decreased by \$69,418 from the prior year. The revenue decrease is due to the decrease in HUD housing assistance payments and the extra dollars received last year in Cares Funding. The decrease in expenses is due to the decrease in housing assistance payments made.

**Business Activities - 2022**

Total revenues increased by \$1,107 and the total expenses increased by \$460 from the prior year. Revenues and expenses in business activities currently only include the three Governors Houses owned by the Commission.

**Business Activities - 2021**

Total revenues decreased by \$401 (excluded special items in 2019) and the total expenses increased by \$38 from the prior year. Revenues and expenses in business activities currently only include the three Governors Houses owned by the Housing Commission.

**Total Revenues and Expenses - 2022**

Total revenues for 2022 increase by \$28,357 due to an increase in HUD funding for public housing. Total expenses increased by \$50,660. Expenses increased due to an increase in rental assistance payments and the cost to maintain the program.

**Total Revenues and Expenses - 2021**

Total revenues for 2021 decreased by \$42,079 due to a decrease in HUD funding for Section 8 and Public Housing. Total expenses decreased by \$121,662. Expenses decreased due to a decrease in rental assistance payments and the cost to maintain the program.

**FINANCIAL STATEMENTS**

The discussion and analysis are intended to serve as an introduction to the Commission's financial statements. The Commission is accounted for utilizing fund accounting. Note 1 to the financial statements provides a description of the organization, funds and significant accounting policies. The financial statements of the Commission provide accounting information similar to that of many other business entities. The Statement of Net Position summarizes the assets and liabilities, the difference between the two reported as net position. It also serves as the basis for analysis of the soundness and liquidity of the Commission. The Statement of Revenues, Expenses and Changes in Net Position summarizes the Commission's operating performance for the year. The Statement of Cash Flows summarizes the flow of cash through the Commission as it conducts its business.

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b>Assets</b>			
Current assets	\$ 1,210,909	\$ 906,020	\$ 957,281
Capital assets	887,842	900,406	803,723
Other assets	235,230	254,145	316
<b>Total assets</b>	<u>2,333,981</u>	<u>2,060,571</u>	<u>1,761,320</u>
Deferred Outflows of Resources	<u>63,186</u>	<u>73,549</u>	<u>49,091</u>
Total assets and deferred outflows	<u>\$ 2,397,167</u>	<u>\$ 2,134,120</u>	<u>\$ 1,810,411</u>
<b>Liabilities</b>			
Current liabilities	<u>\$ 159,865</u>	<u>\$ 55,919</u>	<u>\$ 50,205</u>
Total liabilities	<u>159,865</u>	<u>55,919</u>	<u>50,205</u>
Deferred Inflows of Resources	<u>40,435</u>	<u>109,317</u>	<u>41,608</u>
<b>Net Position</b>			
Net investment in capital assets	887,842	900,406	803,723
Restricted net position - HAP	16,254	27,164	18,285
Restricted for pension	23,444	20,720	7,799
Unrestricted net position	<u>1,269,327</u>	<u>1,020,594</u>	<u>888,791</u>
Total net position	<u>2,196,867</u>	<u>1,968,884</u>	<u>1,718,598</u>
Total liabilities, deferred inflows and net position	<u>\$ 2,397,167</u>	<u>\$ 2,134,120</u>	<u>\$ 1,810,411</u>

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2022 and 2021

	2022	2021	2020
Operating Revenues			
Tenant rental revenue	\$ 366,709	\$ 343,380	\$ 316,326
Other tenant revenue	16,386	16,610	17,226
Other operating revenue	16,653	14,655	16,620
Total operating revenues	<u>399,748</u>	<u>374,645</u>	<u>350,172</u>
Operating Expenses			
Rental assistance payments	665,272	676,336	732,240
General and administrative	603,736	542,012	607,770
Total operating expenses	<u>1,269,008</u>	<u>1,218,348</u>	<u>1,340,010</u>
Operating Loss	(869,260)	(843,703)	(989,838)
Nonoperating Revenue (Expense)	936,866	943,956	1,025,055
Capital Contributions	<u>160,377</u>	<u>150,033</u>	<u>135,486</u>
Change in Net Position	227,983	250,286	170,703
Net Position, Beginning of Year	<u>1,968,884</u>	<u>1,718,598</u>	<u>1,547,895</u>
Net Position, End of Year	<u><u>\$ 2,196,867</u></u>	<u><u>\$ 1,968,884</u></u>	<u><u>\$ 1,718,598</u></u>

**Contacting the Commission's Financial Management**

This report is presented to provide additional information regarding the operations of the Commission and to meet the requirements of GASB Statement No. 34.

The information in this report is intended to provide the reader with an overview of the Commission's operations along with the Commission's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Watertown Housing Commission, 24 West Kemp, Watertown, South Dakota, 57201.

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
 Statements of Net Position  
 December 31, 2022 and 2021

	2022	2021
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 1,189,497	\$ 885,744
Tenants accounts receivables	-	119
Accrued interest receivable	462	199
Other receivables	6	-
Prepaid expenses	20,944	19,958
Total current assets	1,210,909	906,020
Property and Equipment		
Land and improvements	291,433	291,433
Buildings	3,307,707	3,240,648
Furniture, equipment and machinery - dwellings	328,927	332,343
Furniture, equipment and machinery - nondwellings	149,240	149,240
	4,077,307	4,013,664
Less accumulated depreciation	(3,189,465)	(3,113,258)
Total capital assets	887,842	900,406
Other Assets		
Investments - certificates of deposit	234,537	197,657
Net pension asset	693	56,488
Total other assets	235,230	254,145
Deferred Outflows of Resources		
Pension related deferred outflows	63,186	73,549
	\$ 2,397,167	\$ 2,134,120

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
 Statements of Net Position  
 December 31, 2022 and 2021

	2022	2021
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable - trade	\$ 106,389	\$ 6,032
Other payables	6	-
Due to other governments	17,327	16,207
Tenant security deposits payable	20,705	22,105
Accrued liabilities		
Payroll and payroll taxes	-	5
Compensated absences	15,438	11,570
Total current liabilities	159,865	55,919
Deferred inflows of resources		
Pension related deferred inflows	40,435	109,317
Net Position		
Investment in capital assets	887,842	900,406
Restricted for housing assistance payments	16,254	27,164
Restricted for SDRS pension	23,444	20,720
Unrestricted	1,269,327	1,020,594
Total net position	2,196,867	1,968,884
	\$ 2,397,167	\$ 2,134,120

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
 Statements of Revenue, Expenses and Changes in Net Position  
 Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenue		
Tenant rental revenue	\$ 366,709	\$ 343,380
Other tenant revenue	16,386	16,610
Other operating revenue	16,653	14,655
Total operating revenue	399,748	374,645
Operating Expenses		
Administrative services	212,768	197,086
Tenant services	18,523	18,151
Utilities	64,661	60,290
Ordinary maintenance and operations	159,319	138,701
Insurance	29,285	27,438
Other general	687,072	683,186
Payments in lieu of taxes	17,327	16,207
Depreciation	80,053	77,289
Total operating expenses	1,269,008	1,218,348
Operating Loss	(869,260)	(843,703)
Nonoperating Revenue (Expense)		
HUD grants and subsidies	935,052	946,791
Investment income	1,814	1,166
Gain (loss) on disposal of property and equipment	-	(4,001)
Total nonoperating revenue (expense)	936,866	943,956
Change in Net Position Before Capital Grants	67,606	100,253
Capital Contributions	160,377	150,033
Change in Net Position	227,983	250,286
Total Net Position, Beginning of Year	1,968,884	1,718,598
Total Net Position, End of Year	\$ 2,196,867	\$ 1,968,884

The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Activities		
Cash received from tenants	\$ 366,828	\$ 344,021
Cash received from other operating activities	33,039	31,265
Cash payments to employees	(196,514)	(189,707)
Cash payments for housing assistance	(665,272)	(676,336)
Cash payments to suppliers and others	(226,939)	(281,586)
Net Cash used for Operating Activities	<u>(688,858)</u>	<u>(772,343)</u>
Capital and Related Financing Activities		
HUD capital grants	160,377	150,033
Proceeds from the sale of capital assets	-	500
Purchases of capital assets	(67,489)	(178,473)
Net Cash from Capital and Related Financing Activities	<u>92,888</u>	<u>(27,940)</u>
Noncapital Operating Activities		
Cash received from HUD grants and subsidies	935,052	946,791
Investing Activities		
Investment income	1,551	1,427
Purchase of certificates of deposit	(129,399)	(1,327)
Maturities of certificates of deposit	92,519	-
Net Cash from (used for) Investing Activities	<u>(35,329)</u>	<u>100</u>
Net Change in Cash and Cash Equivalents	303,753	146,608
Cash and Cash Equivalents, Beginning of Year	<u>885,744</u>	<u>739,136</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,189,497</u>	<u>\$ 885,744</u>

The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Loss to Net Cash used for		
Operating Activities		
Operating loss	\$ (869,260)	\$ (843,703)
Adjustments to Reconcile Operating Loss to Net Cash used for		
Operating Activities		
Depreciation	80,053	77,289
Change in assets and liabilities		
Tenants accounts receivable	119	641
Prepaid expenses	(986)	637
Net pension asset, deferred outflows and inflows	(2,724)	(12,921)
Accounts payable - trade	100,357	(336)
Tenant security deposits	(1,400)	3,375
Due to other governments	1,120	1,372
Accrued liabilities	3,863	1,303
Net Cash used for Operating Activities	<u>\$ (688,858)</u>	<u>\$ (772,343)</u>

## **Note 1 - Nature of the Organization and Significant Accounting Policies**

### **Nature of the Organization**

The Housing & Redevelopment Commission of the City of Watertown, South Dakota (the Commission), a public housing authority (PHA), was created under the provisions of the laws of the State of South Dakota. The purpose of the Commission is to administer public housing programs authorized by the United States Housing Act. The Commission is managed by a governing board, which is composed of seven members who are appointed to staggered terms of office. The governing board is appointed by the Mayor of the City of Watertown, South Dakota. The governing board employs executives; authorizes contracts of subsidy with the U.S. Department of Housing and Urban Development (HUD) (Annual Contributions Contract) pursuant to the Commission's regulations and statutory authorizations; and causes the Commission to construct, own, and operate public housing facilities. The Commission has been determined to be a component unit of the City of Watertown, South Dakota.

### **Reporting Entity**

The Commission's basic financial statements include the accounts of all Commission operations. The criteria for including organizations as component units within the reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) *Codification of Government Accounting and Financial Reporting Standards* include whether:

- The organization is legally separated (can sue and be sued in their own name).
- The Commission holds the corporate powers of the organization.
- The Commission appoints a voting majority of the organization's governing body.
- The Commission is able to impose its will on the organization.
- The organization has the potential to provide a financial benefit to, or impose a financial burden on, the Commission.
- There is fiscal dependency by the organization on the Commission.

Based on the aforementioned criteria, the Commission has no component units.

### **Programs Administered by the Commission**

The Commission administers annual contributions contracts to provide low-income housing with primary financial support from HUD. Contracts administered by the Commission are as follows:

Low-Rent Public Housing Program – The Commission owns, operates and maintains 85 units of public housing. Revenues consist primarily of rents and other fees collected from tenants, and an operating subsidy from HUD.

Capital Fund Program – Funds from the Capital Fund Program provided by HUD are used to maintain and improve the public housing units. Substantially all additions to land, structures and equipment of the Commission are accomplished through these capital fund grants.

Section 8 Housing Choice Voucher Program – The Section 8 Housing Choice Voucher Program (Section 8) is a federally subsidized housing program designed to assist very low-income families in finding in the local market decent, safe, affordable, and sanitary rental housing suitable for their needs and desires. If the unit and rental rate are acceptable, the PHA enters into a housing assistance payments (HAP) contract with the owner of the unit to make up the difference between what the family can afford to pay, based on HUD guidelines, and the total contracted rent. Housing units leased under the Section 8 programs must meet housing quality standards as determined by the Commission; this is accomplished through unit inspections that must be conducted initially and on an annual basis thereafter.

### **Program Accounting**

The accounts of the Commission are organized on the basis of programs, each of which is considered a separate accounting entity. The operations of each program are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. The Commission classifies its programs as proprietary.

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

The Department of Housing and Urban Development Real Estate Assessment Center (REAC) assesses the financial condition of PHA's. To uniformly and consistently assess the PHA's, REAC requires that PHA's financial statements conform to generally accepted accounting principles (GAAP).

The Commission considers all revenues and expenses as operating items with the exception of interest expense, interest income, HUD intergovernmental revenues, and HUD capital grants, which are considered non-operating for financial reporting purposes.

The Commission prepares its financial statements on the accrual basis of accounting which is generally accepted. Under this method, revenues are recognized in the accounting period in which they are earned and expenses when the liability for them is initially incurred.

### **Cash and Cash Equivalents**

For the purpose of the statement of cash flows, the Commission considers cash deposits and highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

### **Accounts Receivable**

Revenues are recorded when earned and are reported as accounts receivable until collected. Accounts receivable includes amounts due from tenants and the government. Accounts receivable from tenants include rents and charges currently due from residential residents. Management has established an allowance for doubtful accounts for amounts that may not be collectible in the future. Receivables are reported net of the related allowance in the statement of net position. The allowance for the years ended December 31, 2022 and 2021, was \$0.

### **Investments**

Investments include certificates of deposit with original maturities of more than three months. Certificates of deposit held directly with financial institutions are held at amortized cost.

### **Capital Assets**

Capital assets are recorded at cost, which is comprised of land, buildings, furniture and equipment. It is the policy of the Commission to capitalize all assets with a cost of \$5,000 or greater. Donated capital assets are recorded at the acquisition value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized. Expenditures for renewals and improvements that will significantly add to the productive capacity or extend the useful life of an asset are capitalized. Upon sale or retirement, the costs are removed from the accounts, and the resulting gain or loss is included in revenue or expense.

Depreciation is computed over the estimated useful lives of the assets, which range from three to forty years, using the straight-line method.

The Commission reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. No impairment loss has been recognized for the years ended December 31, 2022 and 2021.

### **Due to Other Governments (PILOT)**

Public housing authorities are not required to pay property taxes based on the normal property value assessment and tax levy procedures on real property owned; but, rather, they make payments in lieu of (property) taxes (PILOT). The state law requires that the amount due is 5% of dwelling rental income.

### **Compensated Absences**

It is the Commission's policy to allow employees to accumulate earned but unused vacation and sick pay benefits up to certain limits. These amounts are charged to expense and a corresponding liability is established when earned. The liability is anticipated to be paid within the next fiscal year and is reported as a current liability.

### **Income Taxes**

The Commission, as a governmental entity, is not liable for federal and state income taxes. However, the Commission does make annual payments in lieu of taxes (PILOT) to the local county.

### **Application of Net Position**

It is the Commission'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 is available.

### **Components of Net Position**

Components of net position include the following:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.
- *Restricted net position* consists of assets and deferred outflows less related liabilities and deferred inflows reported in the basic statement of net position that are subject to restraints on their use by HUD.
- *Unrestricted net position* consists of assets and deferred outflows less related liabilities and deferred inflows reported in the basic statement of net position that are not subject to restraints on their use.

### **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 at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Deferred Outflows and Inflows of Resources**

In addition to assets, the balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission has two items that qualify for reporting in this category. The Commission reports contributions made to the pension plan after the measurement date and prior to the fiscal year-end and changes in the net pension liability (asset) not included in pension expense (revenue) reported in the statements of net position as deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has one item that qualifies for reporting in this category. The Commission reports changes in the net pension liability (asset) not included in pension expense (revenue) reported in the statements of net position as deferred inflows of resources.

**Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows/inflows of resources, and pension expense/(revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS’s fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note 2 - Deposits and Investments**

**Deposits**

The Commission’s deposits are made and held in qualified public depositories. Qualified depositories are required by South Dakota Codified Law 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. The Commission has entered into a general depository agreement in which deposits in excess of the amounts insured by the FDIC shall be fully and continually secured by the bank by the deposit or setting aside of collateral of the types and in the manner as is prescribed by state law for the security of public funds.

The Commission’s policy is to credit all income from deposits to the fund which makes the deposits.

*Custodial Credit Risk* – Custodial credit risk is the risk that, in the event of a failure of a depository financial institution, the Commission’s deposits may not be returned. The Commission does not have a formal investment policy in regard to custodial credit risk. Deposits are held in the Commission’s name by multiple banks in northeast South Dakota.

The actual cash and cash equivalent balances along with certificates of deposit held by financial institutions at December 31, 2022 and 2021, were as follows:

	<u>2022</u>	<u>2021</u>
Insured (FDIC)	\$ 1,432,084	\$ 697,657
Uninsured, collateral held by the Commission or the Commission's agent in the Commission's name	-	518,169
Total deposits	<u>\$ 1,432,084</u>	<u>\$ 1,215,826</u>
The Commission's carrying amount of deposits at December 31		
Cash and cash equivalents	\$ 1,189,497	\$ 885,744
Investments - certificates of deposit	<u>234,537</u>	<u>197,657</u>
	<u>\$ 1,424,034</u>	<u>\$ 1,083,401</u>

The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Notes to Financial Statements

December 31, 2022 and 2021

*Interest Rate Risk* – The Commission 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. As of December 31, 2022 and 2021, the Commission has investments maturing between one to five years.

*Credit Risk* – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission limits the amount that may be deposited or invested in any one investment to an amount that is covered by FDIC insurance or other collateral. Investments in certificates of deposit are not rated.

*Concentration of Credit Risk* – The Commission places no limit on the amount the Commission may invest in any one institution. All investments are held in certificates of deposit covered by FDIC insurance.

**Note 3 - Capital Assets**

Capital asset activity for the Commission for the year ended December 31, 2022, is as follows:

	<u>1/1/2022</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2022</u>
Capital assets not being depreciated				
Land	\$ 140,200	\$ -	\$ -	\$ 140,200
Capital assets being depreciated				
Land improvements	151,233	-	-	151,233
Buildings and improvements	3,240,648	67,059	-	3,307,707
Furniture and equipment	481,583	430	(3,846)	478,167
Total capital assets being depreciated	3,873,464	67,489	(3,846)	3,937,107
Less accumulated depreciation	<u>(3,113,258)</u>	<u>(80,053)</u>	<u>3,846</u>	<u>(3,189,465)</u>
Total capital assets being depreciated, net	<u>760,206</u>	<u>(12,564)</u>	<u>-</u>	<u>747,642</u>
Total capital assets, net	<u>\$ 900,406</u>	<u>\$ (12,564)</u>	<u>\$ -</u>	<u>\$ 887,842</u>

The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Notes to Financial Statements  
December 31, 2022 and 2021

Capital asset activity for the Commission for the year ended December 31, 2021, is as follows:

	<u>1/1/2021</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2021</u>
Capital assets not being depreciated				
Land	\$ 140,200	\$ -	\$ -	\$ 140,200
Capital assets being depreciated				
Land improvements	151,233	-	-	151,233
Buildings and improvements	3,098,561	152,575	(10,488)	3,240,648
Furniture and equipment	467,849	25,898	(12,164)	481,583
Total capital assets being depreciated	3,717,643	178,473	(22,652)	3,873,464
Less accumulated depreciation	<u>(3,054,120)</u>	<u>(77,289)</u>	<u>18,151</u>	<u>(3,113,258)</u>
Total capital assets being depreciated, net	663,523	101,184	(4,501)	760,206
Total capital assets, net	<u>\$ 803,723</u>	<u>\$ 101,184</u>	<u>\$ (4,501)</u>	<u>\$ 900,406</u>

**Note 4 - Accrued Compensated Absences**

Activity in compensated absences is as follows for the years ended December 31, 2022 and 2021:

	<u>Balance 1/1/2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2022</u>	<u>Current Portion of Balance</u>
Compensated absences	<u>\$ 11,570</u>	<u>\$ 3,868</u>	<u>\$ -</u>	<u>\$ 15,438</u>	<u>\$ 15,438</u>
	<u>Balance 1/1/2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2021</u>	<u>Current Portion of Balance</u>
Compensated absences	<u>\$ 10,266</u>	<u>\$ 1,304</u>	<u>\$ -</u>	<u>\$ 11,570</u>	<u>\$ 11,570</u>

**Note 5 - Commitments and Contingencies**

The activities of the Commission are currently funded, in large part, by the federal government, and future operations of the Commission are reliant on continuation of this funding from the federal government.

Amounts received or receivable from HUD are subject to audit and adjustment by HUD. Any disallowed expenses may constitute a liability of the Commission. The amount of expenses which may be disallowed by HUD, if any, cannot be determined at this time, although the Commission expects such amounts to be immaterial.

### **Note 6 - Risk Management**

The Commission 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. The Commission carries commercial insurance for the risks of loss, including workers' compensation and employee accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Limits of insurance coverage have been adjusted annually.

### **Note 7 - 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, P.O. Box 1098, Pierre, South Dakota, 57501-1098, or by calling (605) 773-3731.

#### **Benefits Provided**

SDRS has four different 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 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater than or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 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 than 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 Commission’s share of contributions to the SDRS for the fiscal years ended December 31, 2022, 2021, and 2020, were \$10,928, \$10,130, and \$9,864, respectively, equal to the required contributions each year.

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

At June 30, 2022 and 2021, SDRS is 100.10% and 105.53%, respectively, funded and, accordingly, has a net pension asset in 2022 and 2021. The proportionate shares of the components of the net pension liability (asset) of SDRS for the Commission as of this measurement period and reported by the Commission as of December 31, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Proportionate share of total pension liability	\$ 1,035,736	\$ 1,022,783
Less proportionate share of net position restricted for pension benefits	<u>1,036,429</u>	<u>1,079,271</u>
Proportionate share of net pension liability (asset)	<u>\$ (693)</u>	<u>\$ (56,488)</u>

# The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Notes to Financial Statements  
December 31, 2022 and 2021

At December 31, 2022 and 2021, the Commission reported an asset of \$(693) and \$(56,488), respectively, for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022 and 2021, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Commission's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the Commission's proportion was 0.007337%, which was an decrease of 0.0000390% from its proportion measured as of June 30, 2021. At June 30, 2021, the Commission's proportion was 0.0073760%, which was an increase of 0.0000925% from its proportion measured as of June 30, 2020.

For the years ended December 31, 2022 and 2021, the Commission recognized pension expense (reduction of pension expense) of (\$2,725) and (\$12,921), respectively. At December 31, 2022, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 13,199	\$ 45
Changes in assumption	44,070	38,621
Net difference between projected and actual earnings on pension plan investments	-	1,662
Changes in proportion and difference between Commission contributions and proportionate share of contributions	417	107
Project contributions subsequent to the measurement date	5,500	-
	\$ 63,186	\$ 40,435

At December 31, 2022, there is \$5,500 reported as deferred outflow of resources related to pensions resulting from Commission contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2023.

At December 31, 2021, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,028	\$ 148
Changes in assumption	64,960	28,288
Net difference between projected and actual earnings on pension plan investments	-	80,694
Changes in proportion and difference between Commission contributions and proportionate share of contributions	1,477	187
Project contributions subsequent to the measurement date	5,084	-
	\$ 73,549	\$ 109,317

# The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Notes to Financial Statements  
December 31, 2022 and 2021

At December 31, 2021, there was \$5,084 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date that was recognized as a decrease of the net pension liability in the year ending December 31, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2022, will be recognized in pension expense/(reduction of pension expense) as follows:

Year Ended December 31:	Amount
2023	\$ 4,851
2024	9,620
2025	(10,965)
2026	13,745
	\$ 17,251

## 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%

### 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 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 Housing & Redevelopment Commission of the City of Watertown, South Dakota

Notes to Financial Statements  
December 31, 2022 and 2021

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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 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>	

## 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 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 Commission’s proportionate share of net pension liability (asset) as of December 31, 2022, calculated using the discount rate of 6.5%, as well as what the Commission’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage point higher (7.5%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
The Commission's proportionate share of the net pension liability (asset)	\$ 143,977	\$ (693)	\$ (118,927)

**Pension Plan Fiduciary Net Position**

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

**Note 8 - Current Vulnerability Due to Certain Concentrations**

The Commission’s operations are concentrated in the multi-family real estate market. In addition, the Commission operates in a heavily regulated environment. The operations of the Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.



Required Supplementary Information  
December 31, 2022

**The Housing & Redevelopment  
Commission of the City of Watertown,  
South Dakota**

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
 Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions  
 Year Ended December 31, 2022

Pension Plan	Fiscal Year Ending	Employer's Percentage of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered-Payroll (b)	Employer'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	0.0073%	\$ (693)	\$ 175,201	-0.40%	100.10%
SDRS	6/30/2021	0.0074%	(56,488)	167,381	-33.7%	105.52%
SDRS	6/30/2020	0.0073%	(316)	159,850	-0.2%	100.04%
SDRS	6/30/2019	0.0071%	(754)	151,210	-0.5%	100.09%
SDRS	6/30/2018	0.0080%	(187)	168,349	-0.1%	100.02%
SDRS	6/30/2017	0.0087%	(785)	175,815	-0.4%	100.10%
SDRS	6/30/2016	0.0087%	29,382	165,396	17.8%	96.89%
SDRS	6/30/2015	0.0083%	(35,020)	150,742	-23.2%	104.10%

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Payroll (d)	Contributions as a Percentage of Covered-Payroll (b/d)
SDRS	12/31/2022	\$ 10,928	\$ 10,928	\$ -	\$ 182,134	6.0%
SDRS	12/31/2021	10,130	10,130	-	168,825	6.0%
SDRS	12/31/2020	9,864	9,864	-	164,405	6.0%
SDRS	12/31/2019	8,938	8,938	-	148,973	6.0%
SDRS	12/31/2018	9,474	9,474	-	157,894	6.0%
SDRS	12/31/2017	10,857	10,857	-	179,958	6.0%
SDRS	12/31/2016	10,502	10,502	-	175,029	6.0%
SDRS	12/31/2015	9,009	9,009	-	150,153	6.0%

\*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.

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

### **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%.

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.



Supplementary Information  
December 31, 2022

The Housing & Redevelopment  
Commission of the City of Watertown,  
South Dakota

The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Financial Data Schedule

December 31, 2022

Line Item #	Account Description	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Fund 14.872	Governors Houses	Total
Assets						
Current Assets						
Cash						
111	Cash - unrestricted	\$ 719,153	\$ 238,167	\$ -	\$ 193,818	\$ 1,151,138
113	Cash - other restricted	-	16,254	-	-	16,254
114	Cash - tenant security deposits	20,650	-	-	1,455	22,105
100	Total cash	739,803	254,421	-	195,273	1,189,497
Receivables						
129	Accrued interest receivable	462	-	-	-	462
120	Total receivables, net of allowances for doubtful accounts	462	-	-	-	462
131	Investments - unrestricted	234,537	-	-	-	234,537
142	Prepaid expenses and other assets	19,645	1,299	-	-	20,944
144	Interprogram receivables	6	-	-	-	6
150	Total current assets	994,453	255,720	-	195,273	1,445,446

The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Financial Data Schedule

December 31, 2022

Line Item #	Account Description	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Fund 14.872	Governors Houses	Total
Fixed Assets						
161	Land	291,433	-	-	-	291,433
162	Buildings	3,064,544	43,998	-	199,165	3,307,707
163	Furniture, equipment and machinery - dwellings	328,927	-	-	-	328,927
164	Furniture, equipment and machinery - administration	138,002	11,238	-	-	149,240
166	Accumulated depreciation	(3,001,847)	(54,705)	-	(132,913)	(3,189,465)
160	Total fixed assets, net of accumulated depreciation	821,059	531	-	66,252	887,842
174	Other assets	471	222	-	-	693
180	Total noncurrent assets	821,530	753	-	66,252	888,535
190	Total assets	1,815,983	256,473	-	261,525	2,333,981
200	Deferred outflows of resources	42,966	20,220	-	-	63,186
290	Total assets and deferred outflow of resources	<u>\$ 1,858,949</u>	<u>\$ 276,693</u>	<u>\$ -</u>	<u>\$ 261,525</u>	<u>\$ 2,397,167</u>

The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Financial Data Schedule

December 31, 2022

Line Item #	Account Description	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Fund 14.872	Governors Houses	Total
Liabilities and Equity/Net Position						
Liabilities						
Current Liabilities						
312	Accounts payable ≤ 90 days	\$ 104,888	\$ 1,501	\$ -	\$ -	\$ 106,389
322	Accrued compensated absences	10,514	4,924	-	-	15,438
333	Accounts payable - other government	17,327	-	-	-	17,327
341	Tenant security deposits	19,250	-	-	1,455	20,705
347	Interprogram payables	-	6	-	-	6
310	Total current liabilities	<u>151,979</u>	<u>6,431</u>	<u>-</u>	<u>1,455</u>	<u>159,865</u>
300	Total liabilities	<u>151,979</u>	<u>6,431</u>	<u>-</u>	<u>1,455</u>	<u>159,865</u>
400	Deferred inflows of resources	<u>27,497</u>	<u>12,938</u>	<u>-</u>	<u>-</u>	<u>40,435</u>
508.4	Net investment in capital assets	821,059	531	-	66,252	887,842
511.4	Restricted net position	15,940	23,758	-	-	39,698
512.4	Unrestricted net position	<u>842,474</u>	<u>233,035</u>	<u>-</u>	<u>193,818</u>	<u>1,269,327</u>
513	Total equity/net position	<u>1,679,473</u>	<u>257,324</u>	<u>-</u>	<u>260,070</u>	<u>2,196,867</u>
600	Total liabilities, deferred inflows and equity/net position	<u>\$ 1,858,949</u>	<u>\$ 276,693</u>	<u>\$ -</u>	<u>\$ 261,525</u>	<u>\$ 2,397,167</u>

The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Financial Data Schedule

Year Ended December 31, 2022

Line Item #	Account Description	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Fund 14.872	Governors Houses	Total
<b>Revenues</b>						
703	Net tenant rental revenue	\$ 346,549	\$ -	\$ -	\$ 20,160	366,709
704	Tenant revenue - other	16,386	-	-	-	16,386
705	Total tenant revenue	362,935	-	-	20,160	383,095
706	HUD PHA operating grants	164,538	-	-	-	164,538
706	Housing Assistance Payments	-	770,514	-	-	770,514
706.1	Capital grants	-	-	160,377	-	160,377
711	Investment income - unrestricted	1,626	139	-	49	1,814
714	Fraud recovery	-	3,305	-	-	3,305
715	Other revenue	13,273	-	-	75	13,348
700	Total revenues	542,372	773,958	160,377	20,284	1,496,991
<b>Expenses</b>						
Administrative						
911	Administrative salaries	48,069	48,069	-	-	96,138
912	Auditing fees	10,238	10,238	-	2,275	22,751
915	Employee benefit contributions - administrative	9,732	10,084	-	-	19,816
916	Office expense	18,099	13,782	-	-	31,881
918	Travel	1,055	1,055	-	-	2,110
919	Other operating - administrative	7,880	7,880	-	-	15,760
Tenant services						
924	Tenant services - other	18,523	-	-	-	18,523
Utilities						
931	Water	26,907	-	-	-	26,907
932	Electricity	24,624	-	-	-	24,624
933	Gas	13,130	-	-	-	13,130

The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Financial Data Schedule

Year Ended December 31, 2022

Line Item #	Account Description	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Fund 14.872	Governors Houses	Total
	Ordinary maintenance and operation					
941	Ordinary maintenance and operations - labor	89,732	11,783	-	344	101,859
942	Ordinary maintenance and operations - materials and other	26,285	-	-	-	26,285
943	Ordinary maintenance and operations - contract costs	31,175	-	-	-	31,175
945	Employee benefit contributions - ordinary maintenance	21,626	2,686	-	-	24,312
	General expenses					
961.1	Property insurance	20,297	-	-	-	20,297
961.2	Liability insurance	1,082	1,082	-	-	2,164
961.3	Workmen's compensation	2,607	824	-	-	3,431
961.4	All other insurance	2,241	-	-	1,152	3,393
963	Payments in lieu of taxes	17,327	-	-	-	17,327
964	Bad debt - tenant rents	3,328	-	-	-	3,328
969	Total operating expenses	393,957	107,483	-	3,771	505,211
970	Excess (deficiency) operating revenue over (under) operating expenses	148,415	666,475	160,377	16,513	991,780
	Other expenses					
971	Extraordinary maintenance	18,103	-	-	-	18,103
973	Housing assistance payments	-	665,641	-	-	665,641
974	Depreciation expense	73,033	176	-	6,844	80,053
900	Total expenses	485,093	773,300	-	10,615	1,269,008

The Housing & Redevelopment Commission of the City of Watertown, South Dakota

Financial Data Schedule

Year Ended December 31, 2022

Line Item #	Account Description	Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Fund 14.872	Governors Houses	Total
1001	Operating transfers in	160,377	-	-	-	160,377
1002	Operating transfers out	-	-	(160,377)	-	(160,377)
1010	Total other financing sources (uses)	160,377	-	(160,377)	-	-
1000	Excess (deficiency) of operating revenue over (under) expenses	\$ 217,656	\$ 658	\$ -	\$ 9,669	\$ 227,983
Memo account information						
1103	Beginning equity	\$ 1,461,817	\$ 256,666	\$ -	\$ 250,401	\$ 1,968,884
1104	Prior period adjustments and equity transfers	-	-	-	-	-
1117	Administrative fee equity	-	233,566	-	-	233,566
1118	Housing assistance payments equity	-	16,254	-	-	16,254
1119	Unit months available	1,020	3,780	-	36	4,836
1121	Number of unit months leased	1,000	1,675	-	36	2,711
1127	Excess cash	-	-	-	-	-
1162	Building purchases	67,059	-	-	-	67,059
1163	Furniture and equipment - dwelling purchases	430	-	-	-	430
1164	Furniture and equipment - administrative purchases	-	-	-	-	-
1165	Leasehold improvements purchases	-	-	-	-	-
1166	Infrastructure purchases	-	-	-	-	-



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

To the Board of Commissioners  
The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Watertown , South Dakota

We have audited, in accordance with the 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 business-type activities of The Housing & Redevelopment Commission of the City of Watertown, South Dakota, a component unit of the City of Watertown, South Dakota, (the Commission), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements and have issued our report thereon dated June 7, 2023

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

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 2022-002 to be a significant deficiency.

### **Report on Compliance and Other Matters**

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

### **Commission's Response to Findings**

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

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

Aberdeen, South Dakota  
June 7, 2023



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

The Board of Commissioners  
The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Watertown , South Dakota

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

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

We have audited The Housing & Redevelopment Commission of the City of Watertown, South Dakota, a component unit of the City of Watertown, South Dakota's (the Commission) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Commission's major federal program for the year ended December 31, 2022. The Commission'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 Commission 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 Commission and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Commission'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 Commission's federal programs.

### ***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 Commission'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 Commission'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 Commission'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 Commission'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 Commission'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.



Aberdeen, South Dakota  
June 7, 2023

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
 Schedule of Expenditures of Federal Awards  
 Year Ended December 31, 2022

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<u>Federal Grantor/Program or Cluster Title</u>	<u>Federal Financial Assistance Listing</u>	<u>Pass Through Entity Identifying Number</u>	<u>Current Year Expenditures</u>
U.S. Department of Housing and Urban Development			
Public and Indian Housing	14.850	N/A	\$ 164,224
Public Housing Capital Fund Program	14.872	N/A	160,377
Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	14.871	N/A	<u>773,629</u>
Housing Voucher Cluster Total			<u>773,629</u>
Total Federal Financial Assistance			<u><u>\$ 1,098,230</u></u>

**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Commission under programs of the federal government for the year ended December 31, 2022. The information 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 Commission, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Commission. The Commission received federal awards directly from federal agencies

**Note B – Significant Accounting Policies**

Expenditures reported in the schedule are reported on the 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. The Commission's summary of significant accounting policies is presented in Note 1 in the Commission's basic financial statements. No federal financial assistance has been provided to a subrecipient.

**Note C – Indirect Cost Rate**

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

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
 Schedule of Findings and Questioned Costs  
 Year Ended December 31, 2022

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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 weakness(es) identified?	Yes
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance with requirements applicable to major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance 2 CFR 200.516(a)?	No

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Section 8 Housing Choice Vouchers	14.871
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

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**Section II – Financial Statement Findings**

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**Finding 2022-001 - Financial Statements, Footnotes, and the Schedule of Expenditures of Federal Awards Are Prepared by the Auditor, Which, at Times, Includes Material Proposed Adjustments**

**Material Weakness**

*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.

*Condition:* The Commission does not have an internal control system designed to provide for the preparation of the financial statements including required footnotes, disclosures, and schedule of expenditures of federal awards including, at times, all necessary material audit adjustments to the Commission's financial statements. During the course of our engagement, we were requested to draft the financial statements, accompanying notes to those financial statements, and schedule of expenditures of federal awards; and, we proposed a material audit adjustment to the Commission's recorded account balances specific to reporting of revenue.

*Cause:* The Commission does not have adequate staff trained to prepare the financial statements, footnotes, and schedule of expenditures of federal awards.

*Effect:* The preparation of financial statements as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by Commission personnel. The need for proposed audit adjustments indicates that the Commission's interim financial information is not materially correct, which may affect management decisions made during the course of the year.

*Recommendation:* 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. We also recommend review of the trial balance prior to submission for audit for any balances that would require adjustment and adjustments be posted.

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

**Finding 2022-002 - Lack of Segregation of Duties**

**Significant Deficiency**

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

*Condition:* The Commission has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties. Also, the executive director's signature stamp is maintained in an unlocked file.

*Cause:* The Commission has insufficient number of staff to adequately separate duties.

*Effect:* This condition increases the risk that fraud or errors might occur in the financial reporting process and not be detected. The unlocked signature stamp poses additional risk that someone not authorized will have access to the stamp.

*Recommendation:* Although it is recognized that the 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 of Directors exercise adequate oversight of the accounting function.

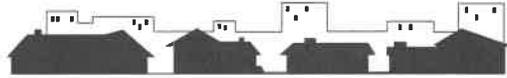
*Views of Responsible Officials:* Management agrees with finding.

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

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None reported.



**Watertown Housing Authority**

24 West Kemp • Watertown, SD 57201-3538  
605-886-7731

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

Prepared by Management of  
**The Housing and Redevelopment Commission of  
Watertown, South Dakota**

## Summary Schedule of Prior Audit Findings

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### **Financial Statement Finding**

Finding 2021-001 - Financial statements, footnotes and the schedule of expenditures of federal awards are prepared by the auditor, which at times includes material proposed adjustments to the financial statements.

Initial Fiscal Year Finding Occurred: 2020

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

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

Finding 2021-002 - Lack of Segregation of Duties

Initial Fiscal Year Finding Occurred: Ongoing

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

Status: Ongoing. Due to cost considerations, we will continue to utilize the hired outside accountant to complete some responsibilities and rely on the board of directors to provide additional oversight of the financial statements.

## Corrective Action Plan

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### Finding 2022-001

**Finding Summary:** Eide Bailly LLP prepared our draft financial statements, accompanying notes to the financial statements, and the schedule of expenditures of federal awards which, at times, includes material proposed adjustments.

**Responsible Individuals:** Mary Goldade, Executive Director

**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 and the accompanying notes to the financial statements 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 2022-002

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

**Responsible Individuals:** Mary Goldade, Executive Director

**Corrective Action Plan:** It is not cost effective to have an internal control system designed to provide for complete segregation of duties within our budgeted funds. We currently have an outside accountant hired to complete some responsibilities to provide some oversight and rely on the board of directors to provide additional oversight of the financial statements.

**Anticipated Completion Date:** Ongoing