



Financial Statements  
December 31, 2020

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, 2020

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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 Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Housing & Redevelopment Commission of the City of Watertown, South Dakota (the Commission), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Commission as of December 31, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively compromise the Commission's basic financial statements. The Financial Data Schedules (FDS) are required by the Housing and Urban Development Real Estate Assessment Center (REAC) and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements.

The FDS and the schedule of expenditures of federal awards are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the FDS and the schedule of expenditures of federal awards are 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 a report dated July 29, 2021, 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, 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  
July 29, 2021

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 year ended December 31, 2020. 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**

- Total assets of the Commission increased \$170,366 as of December 31, 2020.
- Total liabilities of the Commission decreased \$16,254 as of December 31, 2020.
- Net position of the Commission increased by \$170,703 as of December 31, 2020.
- Cash and cash equivalents of the Commission decreased by \$37,261 as of December 31, 2020.
- Unrestricted net position of the Commission increased by \$156,789 as of December 31, 2020.

### **Capital Assets**

As of December 31, 2020, the Commission's investment in capital assets for its business type activities was \$803,723 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment.

The Commission withdrew \$135,486 in Capital Funds in the year 2020. This money was used for operating costs.

### **Long-term Liabilities**

As of December 31, 2020, Long-Term Liabilities are \$0.

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

### **Public Housing**

Total revenues increased by \$50,621 and expenses decreased by \$25,883. The increase in revenue is due to an increase in 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 actually decreased slightly, but show a decrease due to the capital fund monies being used for operating and extra COVID money was provided to assist with extra costs.

### **Capital Funds**

Capital funds in the amount of \$135,486 were received in 2020. The Capital Funds drawn down were from the year 2018 grant amount. This amount was an increase of \$49,903 from December 31, 2019. The Commission has drawn down the 2019 Capital Fund grant in 2021.

### **Section 8 Vouchers**

Total revenues increased by \$121,859 and total expenses increased by \$75,065 from the prior year. The revenue increase is due to the increase in HUD housing assistance payments and extra dollars funded to assist with the COVID pandemic. The increase in expenses is due to the increase in housing assistance payments made.

### **Business Activities**

Total revenues increased by \$646 (excluded special items in 2019) and the total expenses decreased by \$769 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**

Total revenues for 2020 increased by \$173,127 due to an increase in HUD funding for Section 8 and Public Housing. Total expenses increased by \$100,179. Expenses increased due to an increase 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, 2020

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	2020	2019
<b>Assets</b>		
Current assets	\$ 957,281	\$ 806,722
Capital assets	803,723	783,479
Other assets	316	753
	<u>1,761,320</u>	<u>1,590,954</u>
Deferred Outflows of Resources	49,091	38,841
	<u>\$ 1,810,411</u>	<u>\$ 1,629,795</u>
<b>Liabilities</b>		
Current liabilities	\$ 50,205	\$ 66,459
	<u>50,205</u>	<u>66,459</u>
Deferred Inflows of Resources	41,608	15,441
<b>Net Position</b>		
Net investment in capital assets	803,723	783,479
Restricted net position - HAP	18,285	10,261
Restricted for pension	7,799	24,153
Unrestricted net position	888,791	730,002
	<u>1,718,598</u>	<u>1,547,895</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,810,411</u>	<u>\$ 1,629,795</u>

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Management's Discussion and Analysis (Unaudited)  
December 31, 2020

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	2020	2019
Operating Revenues		
Dwelling rental income	\$ 316,326	\$ 335,022
HUD subsidies	-	-
Management and administration fees	17,226	16,751
Other	16,620	12,117
Total operating revenues	350,172	363,890
Operating Expenses		
Rental assistance payments	732,240	680,089
General and administrative	607,770	559,744
Total operating expenses	1,340,010	1,239,833
Operating Income (Loss)	(989,838)	(875,943)
Nonoperating Revenue (Expense)	1,025,055	925,221
Capital Contributions	135,486	85,583
Change in Net Position	170,703	134,861
Net Position, Beginning	1,547,895	1,413,034
Net Position, End of Year	\$ 1,718,598	\$ 1,547,895

**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, SD.

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

Statement of Net Position

December 31, 2020

	<u>2020</u>
Assets and Deferred Outflows of Resources	
Current Assets	
Cash and cash equivalents	\$ 739,136
Tenants accounts receivable	760
Accrued interest receivable	460
Investments - certificates of deposit	196,330
Prepaid expenses	<u>20,595</u>
Total current assets	<u>957,281</u>
Property and Equipment	
Land and improvements	291,433
Buildings	3,098,561
Furniture, equipment and machinery - dwellings	320,053
Furniture, equipment and machinery - nondwellings	<u>147,796</u>
	3,857,843
Less accumulated depreciation	<u>(3,054,120)</u>
Total capital assets	<u>803,723</u>
Other Assets	
Net pension asset	<u>316</u>
Total other assets	<u>316</u>
Deferred Outflows of Resources	
Pension related deferred outflows	<u>49,091</u>
	<u>\$ 1,810,411</u>

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Statement of Net Position  
December 31, 2020

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	2020
Liabilities, Deferred Inflows of Resources and Net Position	
Current Liabilities	
Accounts payable - trade	\$ 6,368
Due to other governments	14,835
Tenant security deposits payable	18,730
Accrued liabilities	
Payroll and payroll taxes	6
Compensated absences	10,266
Total current liabilities	50,205
Deferred inflows of resources	
Pension related deferred inflows	41,608
Net Position	
Investment in capital assets	803,723
Restricted for Housing assistance payments	18,285
Restricted for SRDS Pension	7,799
Unrestricted	888,791
Total net position	1,718,598
	\$ 1,810,411

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Statement of Revenue, Expenses and Changes in Net Position  
Year Ended December 31, 2020

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	2020
Operating Revenue	
Tenant rental revenue	\$ 316,326
Other tenant revenue	17,226
Other operating revenue	16,620
Total operating revenue	350,172
Operating Expenses	
Administrative services	232,161
Tenant services	18,507
Utilities	58,378
Ordinary maintenance and operations	134,190
Insurance	33,153
Other general	754,143
Payments in lieu of taxes	14,835
Depreciation	94,643
Total operating expenses	1,340,010
Operating Loss	(989,838)
Nonoperating Revenue	
HUD grants and subsidies	1,022,731
Investment income	2,324
Total nonoperating revenue	1,025,055
Change in Net Position Before Capital Grants	35,217
Capital contributions	135,486
Change in Net Position	170,703
Total Net Position, Beginning of Year	1,547,895
Total Net Position, End of Year	\$ 1,718,598

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

Statement of Cash Flows  
Year Ended December 31, 2020

	<u>2020</u>
Operating Activities	
Cash received from tenants	\$ 316,320
Cash received from other operating activities	33,846
Cash payments to employees	(136,668)
Cash payments for housing assistance	(732,240)
Cash payments to suppliers and others	<u>(362,950)</u>
Net Cash used for Operating Activities	<u>(881,692)</u>
Capital and Related Financing Activities	
Cash received from HUD grants and subsidies	1,022,731
HUD capital grants	135,486
Purchases of capital assets	<u>(114,888)</u>
Net Cash from Capital and Related Financing Activities	<u>1,043,329</u>
Investing Activities	
Investment income	37
Purchase of certificates of deposit	<u>(198,935)</u>
Net Cash used for Investing Activities	<u>(198,898)</u>
Net Change in Cash and Cash Equivalents	(37,261)
Cash and Cash Equivalents, Beginning of Year	<u>776,397</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 739,136</u></u>

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Statement of Cash Flows  
Year Ended December 31, 2020

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	2020
Reconciliation of Operating Loss to Net Cash used for Operating Activities	
Operating Loss	\$ (989,838)
Adjustments to Reconcile Operating Loss to Net Cash used for Operating Activities	
Depreciation	94,643
Change in Assets and Liabilities	
Tenants accounts receivable	(6)
Prepaid expenses	(6,217)
Net pension asset, deferred outflows and inflows	35,980
Accounts payable - trade	(17,369)
Tenant security deposits	(875)
Payment in lieu of taxes	(979)
Accrued liabilities	2,969
	(881,692)
Net Cash used for Operating Activities	\$ (881,692)

## **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 year ended December 31, 2020, 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, 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, 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 year ended December 31, 2020.

### **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, 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 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 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 if deposit held by financial institutions at December 31, 2020, were as follows:

	<u>2020</u>
Insured (FDIC)	\$ 696,329
Uninsured, collateral held by the Commission or the Commission's agent in the Commission's name	<u>245,303</u>
Total deposits	<u>\$ 941,632</u>
The Commission's carrying amount of deposits at December 31	
Cash and cash equivalents	\$ 739,136
Investments - certificates of deposit	<u>196,330</u>
	<u>\$ 935,466</u>

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

Notes to Financial Statements

December 31, 2020

*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, 2020, 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, 2020, is as follows:

	12/31/2019	Increase	Decrease	12/31/2020
Capital assets not being depreciated				
Land (not depreciated)	\$ 140,200	\$ -	\$ -	\$ 140,200
Capital assets being depreciated				
Buildings and improvements	3,134,906	114,888	-	3,249,794
Furniture and equipment	475,456	-	(7,607)	467,849
Total capital assets being depreciated	3,610,362	114,888	(7,607)	3,717,643
Less accumulated depreciation	(2,967,084)	(94,643)	7,607	(3,054,120)
Total capital assets being depreciated, net	643,278	20,245	-	663,523
Total capital assets, net	\$ 783,478	\$ 20,245	\$ -	\$ 803,723

### Note 4 - Accrued Compensated Absences

Activity in compensated absences is as follows for the year ended December 31, 2020:

	Balance 12/31/19	Increases	Decreases	Balance 12/31/2020	Current Portion of Balance
Compensated absences	\$ 7,294	\$ 2,972	\$ -	\$ 10,266	\$ 10,266

**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 allowed by HUD, if any, cannot be determined at this time, although the Commission expects such amounts to be immaterial.

The Commission has been impacted by the effects of the world-wide coronavirus pandemic. The Commission is closely monitoring its operations and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Commission's financial position is not known.

**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 worker's 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. Commission 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 three different classes of employees: Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater than or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 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.

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

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

Notes to Financial Statements

December 31, 2020

## 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, 2020, 2019, and 2018, were \$9,864, \$8,938, and \$9,474, respectively, equal to the required contributions each year.

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

At June 30, 2020, SDRS is 100.04% funded and, accordingly, has a net pension asset in 2020. 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, 2020, are as follows:

	2020
Proportionate share of total pension liability	\$ 895,361
Less proportionate share of net position restricted for pension benefits	895,677
Proportionate share of net pension liability (asset)	\$ (316)

At December 31, 2020, the Commission reported an asset of \$(316) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2020, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Commission's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the Commission's proportion was 0.00728350%, which was a decrease of 0.0001718% from its proportion measured as of June 30, 2019.

For the years ended December 31, 2020, the Commission recognized pension expense of \$16,354. At December 31, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,211	\$ 248
Changes in assumption	10,189	41,093
Net difference between projected and actual earnings on pension plan investments	29,400	-
Changes in proportion and difference between Commission contributions and proportionate share of contributions	3,293	267
Project contributions subsequent to the measurement date	4,998	-
	\$ 49,091	\$ 41,608

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

Notes to Financial Statements

December 31, 2020

At December 31, 2020, there is \$4,998 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, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2020, will be recognized in pension expense/(reduction of pension expense) as follows:

Year Ended December 31:	Amount
2021	\$ (1,913)
2022	(1,778)
2023	721
2024	5,455
	\$ 2,485

## Actuarial Assumptions

The total pension liability (asset) in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	6.50% at entry to 3.00% after 25 years of service
Discount rate	6.50%, net of plan investment expense
Future COLAs	1.41%

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

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

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

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

Notes to Financial Statements

December 31, 2020

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%
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, 2020, 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)	\$ 122,712	\$ (316)	\$ (100,951)

## 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 and SDHDA. 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.

**Note 9 – Subsequent Events**

Subsequent to year end, the Commission entered into an agreement to start the Emergency Voucher Program with funding through HUD.

The Commission has evaluated subsequent events through July 29, 2021, the date which the financial statements were available to be issued.



Required Supplementary Information  
December 31, 2020

**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, 2020

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-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
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%	100.1%
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%	104.1%

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
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 this table. However, until a full 10-year trend is compiled, the Commission will present information for those years for which information is available.

## **Notes to Required Supplementary Information**

### **Changes from Prior Valuation**

The June 30, 2020, Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019, Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

The details of the changes since the last valuation are as follows:

### **Benefit Provision Changes**

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020, and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if Members retire prior to age 62, and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

### **Actuarial Assumption Changes**

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that, if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2019, and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019, and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% restricted maximum COLA.

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

### **Actuarial Method Changes**

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



Supplementary Information  
December 31, 2020

**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, 2020

Line Item #	Account Description	Low Rent 14.850	14.PHC Public Housing CARES Act Funding	Section 8 Housing Choice Voucher Program 14.871	14.HCC HCV CARES Act Funding	Capital Fund 14.872	Governors Houses	Total
Assets								
Current Assets								
Cash								
111	Cash - unrestricted	\$ 320,575	\$ -	\$ 220,197	\$ -	\$ -	\$ 161,349	\$ 702,121
113	Cash - other restricted	-	-	18,285	-	-	-	18,285
114	Cash - tenant security deposits	17,275	-	-	-	-	1,455	18,730
100	Total cash	337,850	-	238,482	-	-	162,804	739,136
Receivables								
126	Accounts receivable-tenants-dwelling rents	760	-	-	-	-	-	760
129	Accrued interest receivable	460	-	-	-	-	-	460
120	Total receivables, net of allowances for doubtful accounts	1,220	-	-	-	-	-	1,220
142	Prepaid expenses and other assets	19,301	-	1,294	-	-	-	20,595
150	Total current assets	358,371	-	239,776	-	-	162,804	760,951

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

Financial Data Schedule

December 31, 2020

Line Item #	Account Description	Low Rent 14.850	14.PHC Public Housing CARES Act Funding	Section 8 Housing Choice Voucher Program 14.871	14.HCC HCV CARES Act Funding	Capital Fund 14.872	Governors Houses	Total
Fixed Assets								
161	Land	291,433	-	-	-	-	-	291,433
162	Buildings	2,855,399	-	43,997	-	-	199,165	3,098,561
163	Furniture, equipment and machinery - dwellings	320,053	-	-	-	-	-	320,053
164	Furniture, equipment and machinery - administration	136,558	-	11,238	-	-	-	147,796
166	Accumulated depreciation	(2,880,543)	-	(54,352)	-	-	(119,225)	(3,054,120)
160	Total fixed assets, net of accumulated depreciation	722,900	-	883	-	-	79,940	803,723
174	Other assets	212	-	104	-	-	-	316
176	Investments	196,330	-	-	-	-	-	196,330
180	Total noncurrent assets	919,442	-	987	-	-	79,940	1,000,369
190	Total assets	1,277,813	-	240,763	-	-	242,744	1,761,320
200	Deferred outflows of resources	32,891	-	16,200	-	-	-	49,091
290	Total assets and deferred outflow of resources	<u>\$ 1,310,704</u>	<u>\$ -</u>	<u>\$ 256,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 242,744</u>	<u>\$ 1,810,411</u>

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

Financial Data Schedule

December 31, 2020

Line Item #	Account Description	Low Rent 14.850	14.PHC Public Housing CARES Act Funding	Section 8 Housing Choice Voucher Program 14.871	14.HCC HCV CARES Act Funding	Capital Fund 14.872	Governors Houses	Total
<b>Liabilities and Equity</b>								
<b>Liabilities</b>								
<b>Current Liabilities</b>								
312	Accounts payable ≤ 90 days	\$ 6,368	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,368
321	Accrued wage/payroll taxes payable	6	-	-	-	-	-	6
322	Accrued compensated absences	6,413	-	3,853	-	-	-	10,266
333	Accounts payable - other government	14,835	-	-	-	-	-	14,835
341	Tenant security deposits	17,275	-	-	-	-	1,455	18,730
310	Total current liabilities	44,897	-	3,853	-	-	1,455	50,205
300	Total liabilities	44,897	-	3,853	-	-	1,455	50,205
400	Deferred inflows of resources	27,877	-	13,731	-	-	-	41,608
508.4	Net investment in capital assets	722,900	-	883	-	-	79,940	803,723
511.4	Restricted net position	5,226	-	20,858	-	-	-	26,084
512.4	Unrestricted net position	509,804	-	217,638	-	-	161,349	888,791
513	Total equity/net position	1,237,930	-	239,379	-	-	241,289	1,718,598
600	Total liabilities, deferred inflows and equity/net position	\$ 1,310,704	\$ -	\$ 256,963	\$ -	\$ -	\$ 242,744	\$ 1,810,411

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

Financial Data Schedule

December 31, 2020

Line Item #	Account Description	Low Rent 14.850	14.PHC Public Housing CARES Act Funding	Section 8 Housing Choice Voucher Program 14.871	14.HCC HCV CARES Act Funding	Capital Fund 14.872	Governors Houses	Total
<b>Revenues</b>								
703	Net tenant rental revenue	\$ 296,696	\$ -	\$ -	\$ -	\$ -	\$ 19,630	316,326
704	Tenant revenue - other	17,226	-	-	-	-	-	17,226
705	Total tenant revenue	313,922	-	-	-	-	19,630	333,552
706	HUD PHA operating grants	108,749	16,737	-	-	-	-	125,486
706	Housing Assistance Payments	-	-	850,836	46,409	-	-	897,245
706.1	Capital grants	-	-	-	-	135,486	-	135,486
711	Investment income - unrestricted	2,235	-	51	-	-	38	2,324
714	Fraud recovery	-	-	713	-	-	-	713
715	Other revenue	15,907	-	-	-	-	-	15,907
700	Total revenues	440,813	16,737	851,600	46,409	135,486	19,668	1,510,713
<b>Expenses</b>								
Administrative								
911	Administrative salaries	40,291	956	12,618	31,608	-	-	85,473
912	Auditing fees	9,823	-	8,987	-	-	2,090	20,900
915	Employee benefit contributions - administrative	9,636	-	12,460	-	-	-	22,096
916	Office expense	21,619	5,816	18,355	6,809	-	-	52,599
918	Travel	902	228	902	228	-	-	2,260
919	Other operating - administrative	7,400	-	7,400	-	-	-	14,800
Tenant services								
924	Tenant services - other	18,357	150	-	-	-	-	18,507
Utilities								
931	Water	23,022	-	-	-	-	-	23,022
932	Electricity	24,678	-	-	-	-	-	24,678
933	Gas	10,678	-	-	-	-	-	10,678
Ordinary maintenance and operation								
941	Ordinary maintenance and operations - labor	71,697	8,097	2,586	7,764	-	181	90,325
942	Ordinary maintenance and operations - materials and other	17,776	1,490	-	-	-	-	19,266
943	Ordinary maintenance and operations - contract costs	24,598	-	-	-	-	-	24,598
945	Employee benefit contributions-ordinary maintenance	18,705	-	2,922	-	-	-	21,627

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

Financial Data Schedule

December 31, 2020

Line Item #	Account Description	Low Rent 14.850	14.PHC Public Housing CARES Act Funding	Section 8 Housing Choice Voucher Program 14.871	14.HCC HCV CARES Act Funding	Capital Fund 14.872	Governors Houses	Total
	General expenses							
961.1	Property insurance	24,425	-	-	-	-	-	24,425
961.2	Liability insurance	1,069	-	1,069	-	-	-	2,138
961.3	Workmen's compensation	2,489	-	893	-	-	-	3,382
961.4	All other insurance	2,206	-	-	-	-	1,002	3,208
962.1	Other general expenses	12,406	-	-	-	-	-	12,406
963	Payments in lieu of taxes	14,835	-	-	-	-	-	14,835
964	Bad debt - tenant rents	3,431	-	-	-	-	-	3,431
969	Total operating expenses	<u>360,043</u>	<u>16,737</u>	<u>68,192</u>	<u>46,409</u>	<u>-</u>	<u>3,273</u>	<u>494,654</u>
970	Excess (deficiency) operating revenue over (under) operating expenses	<u>80,770</u>	<u>-</u>	<u>783,408</u>	<u>-</u>	<u>135,486</u>	<u>16,395</u>	<u>1,016,059</u>
	Other expenses							
971	Extraordinary maintenance	18,473	-	-	-	-	-	18,473
973	Housing assistance payments	-	-	732,240	-	-	-	732,240
974	Depreciation expense	87,419	-	380	-	-	6,844	94,643
900	Total expenses	<u>465,935</u>	<u>16,737</u>	<u>800,812</u>	<u>46,409</u>	<u>-</u>	<u>10,117</u>	<u>1,340,010</u>
1001	Operating transfers in	135,486	-	-	-	-	-	135,486
1002	Operating transfers out	-	-	-	-	(135,486)	-	(135,486)
1010	Total other financing sources (uses)	<u>135,486</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(135,486)</u>	<u>-</u>	<u>-</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	<u>\$ 110,364</u>	<u>\$ -</u>	<u>\$ 50,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,551</u>	<u>\$ 170,703</u>

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

Financial Data Schedule

December 31, 2020

Line Item #	Account Description	Low Rent 14.850	14.PHC Public Housing CARES Act Funding	Section 8 Housing Choice Voucher Program 14.871	14.HCC HCV CARES Act Funding	Capital Fund 14.872	Governors Houses	Total
Memo account information								
1103	Beginning equity	1,127,566	-	188,591	-	-	231,738	1,547,895
1104	Prior period adjustments and equity transfers	-	-	-	-	-	-	-
1117	Administrative fee equity	-	-	218,521	-	-	-	218,521
1118	Housing assistance payments equity	-	-	-	-	-	-	-
1119	Unit months available	1,020	-	3,780	-	-	36	4,836
1121	Number of unit months leased	999	-	1,926	-	-	36	2,961
1127	Excess cash	-	-	-	-	-	-	-
1162	Building purchases	78,605	-	-	-	-	-	78,605
1163	Furniture and equipment - dwelling purchases	36,283	-	-	-	-	-	36,283
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, (the Commission), which comprise the statement of net position as of December 31, 2020, and the related statements of revenues, expenses and changes in net position and cash flows as of and for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 29, 2021.

**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 deficiencies described in the accompanying schedule of findings and questioned costs as 2020-001 to be 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 deficiencies described in the accompanying schedule of findings and questioned costs as 2020-002 to be a significant deficiency.

### **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*.

### **Response to Findings**

The Commission's response to the findings identified in our audit are 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 it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Aberdeen, South Dakota

July 29, 2021



**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**

We have audited The Housing & Redevelopment Commission of the City of Watertown, South Dakota’s, a component unit of the City of Watertown, South Dakota, (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, 2020. 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.

**Management’s Responsibility**

Management is responsible for compliance with the federal statutes, regulations, the terms and conditions of its federal awards applicable to its federal programs.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the compliance for the Commission’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Commission’s compliance.

**Opinion on the Major Federal Program**

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

## Report on Internal Control over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-003 that we consider to be a significant deficiency.

The Commission's responses to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and the corrective action plan. The Commission's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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  
July 29, 2021

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
 Schedule of Expenditures of Federal Awards  
 Year Ended December 31, 2020

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<u>Federal Grantor/Program Title</u>	<u>Federal Financial Assistance Listing/Federal CFDA Number</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	\$ 108,648
COVID-19 Public and Indian Housing	14.850	N/A	16,737
Public Housing Capital Fund Program	14.872	N/A	135,486
Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	14.871	N/A	796,483
COVID-19 Section 8 Housing Choice Vouchers	14.871	N/A	46,409
			<u>842,892</u>
Housing Voucher Cluster Total			<u>842,892</u>
Total Federal Financial Assistance			<u><u>\$ 1,103,763</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, 2020. 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. No federal financial assistance has been provided to a subrecipient.

**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, 2020

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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?	Yes
Type of Independent 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?	Yes

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>CFDA Number</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 2020-001 - 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 material audit adjustments to the Commission's recorded account balances specific to assets and expenses.

*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:* See Corrective Action Plan.

**Finding 2020-002 - 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.

*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.

*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:* See Corrective Action Plan

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

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**Finding 2020-003 – Lack of Documentation of Allocation of Payroll**

**U.S. Department of Housing and Urban Development  
CFDA #14.871, Federal Award Year: 2020 SD043  
Section 8 Housing Choice Vouchers**

**Compliance Requirement: Allowable Costs and Activities Allowed  
Significant Deficiency in Internal Control over Compliance**

*Criteria:* Under Uniform Guidance Standards for Documentation at 2 CFR 200.430(i), budget estimates for payroll alone do not qualify and, if used, must be true-ed up after the fact to ensure that the amount charges are accurate, allowable and properly allocated.

*Condition:* The Commission does not track time on an annual basis to determine that budgeted allocation to the Section 8 Housing Choice Voucher Program is accurate and properly allocated.

*Cause:* With general knowledge of the time spent on a weekly basis, they were not aware of additional tracking requirements were needed to compare to budgeted amounts.

The Housing & Redevelopment Commission of the City of Watertown, South Dakota  
Schedule of Findings and Questioned Costs  
Year Ended December 31, 2020

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*Effect:* This deficiency could create an opportunity for the amount of payroll attributed to the voucher program to be incorrectly determined and charged to the grant.

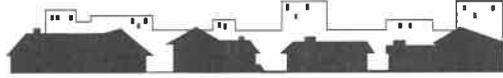
*Questioned Costs:* None

*Context/Sampling:* 100% of Payroll.

*Repeat Finding from Prior Year:* No

*Recommendation:* We recommend that the Commission to take steps document and support the payroll allocations as compared to budget in accordance with Uniform Guidance 2 CFR 200.430(i).

*Views of Responsible Officials:* See Corrective Action Plan.

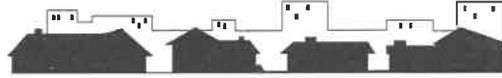


**Watertown Housing Authority**

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, 2020

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



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

## **Summary Schedule of Prior Audit Findings**

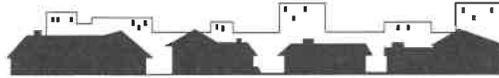
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*Finding 2019-001*

*Initial Fiscal Year Finding Occurred: Ongoing*

*Finding Summary:* Lack of segregation of duties for the revenue, expenditure and payroll functions is occurring based on the limited staff size of the Commission.

*Status:* Ongoing. Due to cost considerations, we will continue to rely on board oversight.



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

## **Corrective Action Plan**

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### ***Finding 2020-001***

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

*Responsible Individuals:* 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 2020-002***

*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

### ***Finding 2020-003***

*Federal Agency Name:* U.S. Department of Housing and Urban Development

*Program Name:* Section 8 Housing Choice Vouchers

*CFDA #* 14.871

*Finding Summary:* The Commission does not track time on an annual basis to determine that budgeted allocation to the Section 8 Housing Choice Voucher Program is accurate and properly allocated.

*Responsible Individuals:* Mary Goldade, Executive Director

*Corrective Action Plan:* Management was not aware of the requirement to track payroll allocations in accordance with Uniform Guidance requirements. Once we became aware of the requirement, we have started a formal tracking process for office staff between federal programs. At yearend, we will compare the budgeted allocation to actual allocation and adjustments will be posted for any differences.

*Anticipated Completion Date:* June 1, 2021