



Financial Statements
December 31, 2022 and 2021
City of Faulkton

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Independent Auditor's Report

To the City Council
City of Faulkton
Faulkton, South Dakota

Report on the Audit of the Financial Statements

Adverse and Unmodified Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Faulkton (the City), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in the Basis for Adverse and Unmodified Opinions section of our report, the accompanying modified cash basis financial statements referred to above do not present fairly the modified cash basis financial position of the discretely presented component unit of the City of Faulkton, as of December 31, 2022 and 2021, or the modified cash basis changes in financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Unmodified Opinions on Governmental Activities, the Business-Type Activities, and Each Major Fund

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Faulkton as of December 31, 2022 and 2021, and the respective changes in modified cash basis financial position, and, where applicable, cash flows – modified cash basis thereof for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Adverse and Unmodified Opinions

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

We are required to be independent of the City of Faulkton 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 adverse and unmodified audit opinions.

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

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

Emphasis of Matter – Basis of Accounting

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of employer's share of net pension liability (asset) and schedule of pension contributions, budgetary comparison schedules, and schedule of changes in long-term debt, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matter described in the Basis for Adverse and Unmodified Opinions section of our report, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2025, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Aberdeen, South Dakota
January 24, 2025

City of Faulkton
Statement of Net Position – Modified Cash Basis
December 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,083,658	\$ 317,017	\$ 1,400,675
Investments	95,676	4,342	100,018
Restricted assets			
Cash and cash equivalents	-	82,501	82,501
Investments	-	107,456	107,456
Total assets	<u>\$ 1,179,334</u>	<u>\$ 511,316</u>	<u>\$ 1,690,650</u>
Net Position			
Restricted for			
Debt service	\$ -	\$ 159,957	\$ 159,957
Equipment repairs and replacement	-	30,000	30,000
2nd Penny Fund	293,414	-	293,414
Gross Receipts Fund	29,881	-	29,881
Unrestricted	<u>856,039</u>	<u>321,359</u>	<u>1,177,398</u>
Total net position	<u>1,179,334</u>	<u>511,316</u>	<u>1,690,650</u>
	<u>\$ 1,179,334</u>	<u>\$ 511,316</u>	<u>\$ 1,690,650</u>

City of Faulkton
Statement of Net Position – Modified Cash Basis
December 31, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 925,405	\$ 286,091	\$ 1,211,496
Investments	95,628	16,832	112,460
Restricted assets			
Cash and cash equivalents	-	80,101	80,101
Investments	-	94,910	94,910
Total assets	<u>\$ 1,021,033</u>	<u>\$ 477,934</u>	<u>\$ 1,498,967</u>
Net Position			
Restricted for			
Debt service	\$ -	\$ 147,411	\$ 147,411
Equipment repairs and replacement	-	27,600	27,600
2nd Penny Fund	249,189	-	249,189
Gross Receipts Fund	31,414	-	31,414
Unrestricted	<u>740,430</u>	<u>302,923</u>	<u>1,043,353</u>
Total net position	<u>1,021,033</u>	<u>477,934</u>	<u>1,498,967</u>
	<u>\$ 1,021,033</u>	<u>\$ 477,934</u>	<u>\$ 1,498,967</u>

City of Faulkton
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 126,581	\$ 14,611	\$ 3,408	\$ -	\$ (108,562)	\$ -	\$ (108,562)
Public safety	59,715	1,150	-	17,947	(40,618)	-	(40,618)
Public works	470,419	13,135	60,095	329	(396,860)	-	(396,860)
Health and welfare	8,569	-	-	-	(8,569)	-	(8,569)
Culture and recreation	107,791	30,881	-	4,500	(72,410)	-	(72,410)
Conservation and development	51,315	-	-	-	(51,315)	-	(51,315)
Total governmental activities	<u>824,390</u>	<u>59,777</u>	<u>63,503</u>	<u>22,776</u>	<u>(678,334)</u>	<u>-</u>	<u>(678,334)</u>
Business-type activities							
Water	266,423	273,730	10,650	-	-	17,957	17,957
Sewer	230,204	181,301	64,110	-	-	15,207	15,207
Total business-type activities	<u>496,627</u>	<u>455,031</u>	<u>74,760</u>	<u>-</u>	<u>-</u>	<u>33,164</u>	<u>33,164</u>
Total primary government	<u>\$ 1,321,017</u>	<u>\$ 514,808</u>	<u>\$ 138,263</u>	<u>\$ 22,776</u>	<u>(678,334)</u>	<u>33,164</u>	<u>(645,170)</u>
General Revenues							
Taxes							
Property taxes					245,142	-	245,142
Sales taxes					400,402	-	400,402
Gross receipts					14,432	-	14,432
State shared revenues					7,588	-	7,588
Unrestricted investment earnings					1,996	218	2,214
Gain in sale of property					165,650	-	165,650
Miscellaneous revenue					1,425	-	1,425
Total general revenues					<u>836,635</u>	<u>218</u>	<u>836,853</u>
Change in Net Position					158,301	33,382	191,683
Net Position - Beginning					1,021,033	477,934	1,498,967
Net Position - Ending					<u>\$ 1,179,334</u>	<u>\$ 511,316</u>	<u>\$ 1,690,650</u>

See Notes to Financial Statements

City of Faulkton
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government							
Governmental activities							
General government	\$ 122,308	\$ 14,119	\$ 3,000	\$ -	\$ (105,189)	\$ -	\$ (105,189)
Public safety	59,913	1,435	4,980	48,599	(4,899)	-	(4,899)
Public works	348,445	5,546	58,172	4,113	(280,614)	-	(280,614)
Health and welfare	7,027	-	-	-	(7,027)	-	(7,027)
Culture and recreation	88,150	24,697	-	500	(62,953)	-	(62,953)
Conservation and development	81,628	-	-	-	(81,628)	-	(81,628)
Total governmental activities	<u>707,471</u>	<u>45,797</u>	<u>66,152</u>	<u>53,212</u>	<u>(542,310)</u>	<u>-</u>	<u>(542,310)</u>
Business-type activities							
Water	277,090	284,687	72,673	-	-	80,270	80,270
Sewer	213,178	182,863	-	-	-	(30,315)	(30,315)
Total business-type activities	<u>490,268</u>	<u>467,550</u>	<u>72,673</u>	<u>-</u>	<u>-</u>	<u>49,955</u>	<u>49,955</u>
Total primary government	<u>\$ 1,197,739</u>	<u>\$ 513,347</u>	<u>\$ 138,825</u>	<u>\$ 53,212</u>	<u>(542,310)</u>	<u>49,955</u>	<u>(492,355)</u>
General Revenues							
Taxes							
Property taxes					241,796	-	241,796
Sales taxes					353,910	-	353,910
Gross receipts					12,418	-	12,418
State shared revenues					6,926	-	6,926
Unrestricted investment earnings					1,469	1,431	2,900
Miscellaneous revenue					1,960	-	1,960
Total general revenues					<u>618,479</u>	<u>1,431</u>	<u>619,910</u>
Change in Net Position					76,169	51,386	127,555
Net Position - Beginning					944,864	426,548	1,371,412
Net Position - Ending					<u>\$ 1,021,033</u>	<u>\$ 477,934</u>	<u>\$ 1,498,967</u>

See Notes to Financial Statements

City of Faulkton
Balance Sheet – Modified Cash Basis – Governmental Funds
December 31, 2022

	General Fund	2nd Penny Fund	Gross Receipts Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 760,363	\$ 293,414	\$ 29,881	\$ 1,083,658
Investments	95,676	-	-	95,676
Total assets	\$ 856,039	\$ 293,414	\$ 29,881	\$ 1,179,334
Fund Balances				
Restricted	\$ -	\$ 293,414	\$ 29,881	\$ 323,295
Assigned	250	-	-	250
Unassigned	855,789	-	-	855,789
Total fund balance	856,039	293,414	29,881	1,179,334
	\$ 856,039	\$ 293,414	\$ 29,881	\$ 1,179,334

	General Fund	2nd Penny Fund	Gross Receipts Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets				
Cash and cash equivalents	\$ 644,802	\$ 249,189	\$ 31,414	\$ 925,405
Investments	95,628	-	-	95,628
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 740,430</u>	<u>\$ 249,189</u>	<u>\$ 31,414</u>	<u>\$ 1,021,033</u>
Fund Balances				
Restricted	\$ -	\$ 249,189	\$ 31,414	\$ 280,603
Assigned	250	-	-	250
Unassigned	740,180	-	-	740,180
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>740,430</u>	<u>249,189</u>	<u>31,414</u>	<u>1,021,033</u>
	<u>\$ 740,430</u>	<u>\$ 249,189</u>	<u>\$ 31,414</u>	<u>\$ 1,021,033</u>

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

	General Fund	2nd Penny Fund	Gross Receipts Fund	Total Governmental Funds
Revenues				
310 Taxes				
311 General property taxes	\$ 244,523	\$ -	\$ -	\$ 244,523
313 General sales and use taxes	200,201	200,201	-	400,402
314 Gross receipts business taxes	-	-	14,432	14,432
319 Penalties and interest on delinquent taxes	619	-	-	619
Total taxes	<u>445,343</u>	<u>200,201</u>	<u>14,432</u>	<u>659,976</u>
320 Licenses and permits	<u>14,221</u>	<u>-</u>	<u>-</u>	<u>14,221</u>
330 Intergovernmental revenue				
331 Federal grants	-	17,947	-	17,947
334 State grants	3,408	-	-	3,408
335 State shared revenue				
335.01 Bank franchise tax	1,800	-	-	1,800
335.03 Liquor tax reversion	5,788	-	-	5,788
335.04 Motor vehicle licenses (5%)	18,719	-	-	18,719
335.08 Local government highway and bridge fund	37,091	-	-	37,091
335.20 Other	1,863	-	-	1,863
338 County shared revenue				
338.01 County road tax (25%)	<u>2,422</u>	<u>-</u>	<u>-</u>	<u>2,422</u>
Total intergovernmental revenue	<u>71,091</u>	<u>17,947</u>	<u>-</u>	<u>89,038</u>
340 Charges for goods and services				
344 Sanitation	8,925	-	-	8,925
346 Culture and recreation	<u>22,308</u>	<u>-</u>	<u>-</u>	<u>22,308</u>
Total charges for goods and services	<u>31,233</u>	<u>-</u>	<u>-</u>	<u>31,233</u>
350 Fines and forfeits				
351 Court fines and costs	<u>1,150</u>	<u>-</u>	<u>-</u>	<u>1,150</u>
Total fines and forfeits	<u>1,150</u>	<u>-</u>	<u>-</u>	<u>1,150</u>
360 Miscellaneous revenue				
361 Investment earnings	346	1,650	-	1,996
362 Rentals	13,173	-	-	13,173
367 Contributions and donations from private sources	4,829	-	-	4,829
369 Other	<u>1,425</u>	<u>-</u>	<u>-</u>	<u>1,425</u>
Total miscellaneous revenue	<u>19,773</u>	<u>1,650</u>	<u>-</u>	<u>21,423</u>
Total revenues	<u>582,811</u>	<u>219,798</u>	<u>14,432</u>	<u>817,041</u>

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

	General Fund	2nd Penny Fund	Gross Receipts Fund	Total Governmental Funds
Expenditures				
410 General government				
411 Legislative	13,890	-	-	13,890
412 Executive	8,662	-	-	8,662
414 Financial administration	78,472	-	-	78,472
419 Other	25,557	-	-	25,557
Total general government	<u>126,581</u>	<u>-</u>	<u>-</u>	<u>126,581</u>
420 Public safety				
421 Police	46,229	-	-	46,229
422 Fire	13,486	-	-	13,486
Total public safety	<u>59,715</u>	<u>-</u>	<u>-</u>	<u>59,715</u>
430 Public works				
431 Highways and streets	288,966	60,000	-	348,966
432 Sanitation	22,460	-	-	22,460
435 Airport	9,048	85,945	-	94,993
437 Cemeteries	4,000	-	-	4,000
Total public works	<u>324,474</u>	<u>145,945</u>	<u>-</u>	<u>470,419</u>
440 Health and welfare				
441 Health	8,569	-	-	8,569
Total health and welfare	<u>8,569</u>	<u>-</u>	<u>-</u>	<u>8,569</u>
450 Culture and recreation				
451 Recreation	70,340	4,000	-	74,340
452 Parks	12,182	4,000	-	16,182
456 Auditorium	17,269	-	-	17,269
Total culture and recreation	<u>99,791</u>	<u>8,000</u>	<u>-</u>	<u>107,791</u>
460 Conservation and development				
465 Economic development and assistance	13,722	21,628	15,965	51,315
Total conservation and development	<u>13,722</u>	<u>21,628</u>	<u>15,965</u>	<u>51,315</u>
Total expenditures	<u>632,852</u>	<u>175,573</u>	<u>15,965</u>	<u>824,390</u>
Other Financing Sources				
391.03 Sale of municipal property	165,650	-	-	165,650
Total other financing sources	<u>165,650</u>	<u>-</u>	<u>-</u>	<u>165,650</u>
Net Change in Fund Balance	115,609	44,225	(1,533)	158,301
Fund Balance - Beginning	740,430	249,189	31,414	1,021,033
Fund Balance - Ending	<u>\$ 856,039</u>	<u>\$ 293,414</u>	<u>\$ 29,881</u>	<u>\$ 1,179,334</u>

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

	General Fund	2nd Penny Fund	Gross Receipts Fund	Total Governmental Funds
Revenues				
310 Taxes				
311 General property taxes	\$ 241,156	\$ -	\$ -	\$ 241,156
313 General sales and use taxes	176,955	176,955	-	353,910
314 Gross receipts business taxes	-	-	12,418	12,418
319 Penalties and interest on delinquent taxes	640	-	-	640
Total taxes	<u>418,751</u>	<u>176,955</u>	<u>12,418</u>	<u>608,124</u>
320 Licenses and permits	<u>13,844</u>	<u>-</u>	<u>-</u>	<u>13,844</u>
330 Intergovernmental revenue				
331 Federal grants	2,494	48,599	-	51,093
334 State grants	3,000	2,486	-	5,486
335 State shared revenue				
335.01 Bank franchise tax	1,415	-	-	1,415
335.03 Liquor tax reversion	5,511	-	-	5,511
335.04 Motor vehicle licenses (5%)	17,763	-	-	17,763
335.08 Local government highway and bridge fund	35,652	-	-	35,652
335.20 Other	2,335	-	-	2,335
338 County shared revenue				
338.01 County road tax (25%)	<u>2,422</u>	<u>-</u>	<u>-</u>	<u>2,422</u>
Total intergovernmental revenue	<u>70,592</u>	<u>51,085</u>	<u>-</u>	<u>121,677</u>
340 Charges for goods and services				
344 Sanitation	160	-	-	160
346 Culture and recreation	<u>22,222</u>	<u>-</u>	<u>-</u>	<u>22,222</u>
Total charges for goods and services	<u>22,382</u>	<u>-</u>	<u>-</u>	<u>22,382</u>
350 Fines and forfeits				
351 Court fines and costs	1,300	-	-	1,300
359 Other fines and forfeits	<u>135</u>	<u>-</u>	<u>-</u>	<u>135</u>
Total fines and forfeits	<u>1,435</u>	<u>-</u>	<u>-</u>	<u>1,435</u>
360 Miscellaneous revenue				
361 Investment earnings	1,071	398	-	1,469
362 Rentals	8,136	-	-	8,136
367 Contributions and donations from private sources	4,613	-	-	4,613
369 Other	<u>1,229</u>	<u>-</u>	<u>-</u>	<u>1,229</u>
Total miscellaneous revenue	<u>15,049</u>	<u>398</u>	<u>-</u>	<u>15,447</u>
Total revenues	<u>542,053</u>	<u>228,438</u>	<u>12,418</u>	<u>782,909</u>

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

	General Fund	2nd Penny Fund	Gross Receipts Fund	Total Governmental Funds
Expenditures				
410 General government				
411 Legislative	20,314	-	-	20,314
412 Executive	5,947	-	-	5,947
413 Elections	115	-	-	115
414 Financial administration	72,118	-	-	72,118
419 Other	23,814	-	-	23,814
Total general government	<u>122,308</u>	<u>-</u>	<u>-</u>	<u>122,308</u>
420 Public safety				
421 Police	46,229	-	-	46,229
422 Fire	13,684	-	-	13,684
Total public safety	<u>59,913</u>	<u>-</u>	<u>-</u>	<u>59,913</u>
430 Public works				
431 Highways and streets	255,372	40,000	-	295,372
432 Sanitation	15,142	-	-	15,142
435 Airport	10,740	23,191	-	33,931
437 Cemeteries	4,000	-	-	4,000
Total public works	<u>285,254</u>	<u>63,191</u>	<u>-</u>	<u>348,445</u>
440 Health and welfare				
441 Health	7,027	-	-	7,027
Total health and welfare	<u>7,027</u>	<u>-</u>	<u>-</u>	<u>7,027</u>
450 Culture and recreation				
451 Recreation	54,253	-	-	54,253
452 Parks	12,536	3,245	-	15,781
456 Auditorium	18,116	-	-	18,116
Total culture and recreation	<u>84,905</u>	<u>3,245</u>	<u>-</u>	<u>88,150</u>
460 Conservation and development				
465 Economic development and assistance	13,561	56,702	11,365	81,628
Total conservation and development	<u>13,561</u>	<u>56,702</u>	<u>11,365</u>	<u>81,628</u>
Total expenditures	<u>572,968</u>	<u>123,138</u>	<u>11,365</u>	<u>707,471</u>
Other Financing Sources				
391.03 Sale of municipal property	731	-	-	731
Total other financing sources	<u>731</u>	<u>-</u>	<u>-</u>	<u>731</u>
Net Change in Fund Balance	(30,184)	105,300	1,053	76,169
Fund Balance - Beginning	<u>770,614</u>	<u>143,889</u>	<u>30,361</u>	<u>944,864</u>
Fund Balance - Ending	<u>\$ 740,430</u>	<u>\$ 249,189</u>	<u>\$ 31,414</u>	<u>\$ 1,021,033</u>

City of Faulkton
Balance Sheet – Modified Cash Basis – Proprietary Funds
December 31, 2022

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Current Assets			
Cash and cash equivalents	\$ 187,448	\$ 129,569	\$ 317,017
Investments	-	4,342	4,342
Total current assets	<u>187,448</u>	<u>133,911</u>	<u>321,359</u>
Noncurrent Assets			
Restricted cash and cash equivalents	82,501	-	82,501
Restricted investments	-	107,456	107,456
Total noncurrent assets	<u>82,501</u>	<u>107,456</u>	<u>189,957</u>
Total assets	<u>\$ 269,949</u>	<u>\$ 241,367</u>	<u>\$ 511,316</u>
Net Position			
Restricted			
Debt service	\$ 52,501	\$ 107,456	\$ 159,957
Equipment repairs and replacement	30,000	-	30,000
Unrestricted	<u>187,448</u>	<u>133,911</u>	<u>321,359</u>
Total net position	<u>269,949</u>	<u>241,367</u>	<u>511,316</u>
	<u>\$ 269,949</u>	<u>\$ 241,367</u>	<u>\$ 511,316</u>

City of Faulkton
Balance Sheet – Modified Cash Basis – Proprietary Funds
December 31, 2021

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Current Assets			
Cash and cash equivalents	\$ 171,785	\$ 114,306	\$ 286,091
Investments	-	16,832	16,832
Total current assets	<u>171,785</u>	<u>131,138</u>	<u>302,923</u>
Noncurrent Assets			
Restricted cash and cash equivalents	80,101	-	80,101
Restricted investments	-	94,910	94,910
Total noncurrent assets	<u>80,101</u>	<u>94,910</u>	<u>175,011</u>
Total assets	<u>\$ 251,886</u>	<u>\$ 226,048</u>	<u>\$ 477,934</u>
Net Position			
Restricted			
Debt service	\$ 52,501	\$ 94,910	\$ 147,411
Equipment repairs and replacement	27,600	-	27,600
Unrestricted	<u>171,785</u>	<u>131,138</u>	<u>302,923</u>
Total net position	<u>251,886</u>	<u>226,048</u>	<u>477,934</u>
	<u>\$ 251,886</u>	<u>\$ 226,048</u>	<u>\$ 477,934</u>

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

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 273,730	\$ 61,427	\$ 335,157
371 Surcharge as security for debt	-	119,874	119,874
Total operating revenue	<u>273,730</u>	<u>181,301</u>	<u>455,031</u>
Operating Expenses			
410 Personal services	49,857	48,535	98,392
420 Other current expense	37,920	32,972	70,892
426.2 Materials	121,858	-	121,858
Total operating expenses	<u>209,635</u>	<u>81,507</u>	<u>291,142</u>
Operating Income	<u>64,095</u>	<u>99,794</u>	<u>163,889</u>
Nonoperating Revenue (Expense)			
330 Operating grants	10,650	64,110	74,760
361 Investment earnings	106	112	218
441 Debt service (principal)	(24,166)	(78,506)	(102,672)
442 Debt service (interest)	(32,622)	(70,191)	(102,813)
Total nonoperating revenue (expense)	<u>(46,032)</u>	<u>(84,475)</u>	<u>(130,507)</u>
Change in Net Position	18,063	15,319	33,382
Net Position - Beginning	<u>251,886</u>	<u>226,048</u>	<u>477,934</u>
Net Position - Ending	<u>\$ 269,949</u>	<u>\$ 241,367</u>	<u>\$ 511,316</u>

Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds
Year Ended December 31, 2021

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 284,687	\$ 60,731	\$ 345,418
371 Surcharge as security for debt	-	122,132	122,132
Total operating revenue	<u>284,687</u>	<u>182,863</u>	<u>467,550</u>
Operating Expenses			
410 Personal services	49,443	47,966	97,409
420 Other current expense	49,591	16,515	66,106
426.2 Materials	121,268	-	121,268
Total operating expenses	<u>220,302</u>	<u>64,481</u>	<u>284,783</u>
Operating Income	<u>64,385</u>	<u>118,382</u>	<u>182,767</u>
Nonoperating Revenue (Expense)			
330 Operating grants	72,673	-	72,673
361 Investment earnings	255	1,176	1,431
441 Debt service (principal)	(23,402)	(76,863)	(100,265)
442 Debt service (interest)	(33,386)	(71,834)	(105,220)
Total nonoperating revenue (expense)	<u>16,140</u>	<u>(147,521)</u>	<u>(131,381)</u>
Change in Net Position	80,525	(29,139)	51,386
Net Position - Beginning	<u>171,361</u>	<u>255,187</u>	<u>426,548</u>
Net Position - Ending	<u>\$ 251,886</u>	<u>\$ 226,048</u>	<u>\$ 477,934</u>

City of Faulkton
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds
Year Ended December 31, 2022

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 273,730	\$ 181,301	\$ 455,031
Payments to suppliers	(159,778)	(32,972)	(192,750)
Payments to employees	(49,857)	(48,535)	(98,392)
Net Cash from Operating Activities	<u>64,095</u>	<u>99,794</u>	<u>163,889</u>
Cash Flows from Noncapital Financing Activities			
Operating grants	<u>10,650</u>	<u>64,110</u>	<u>74,760</u>
Net Cash from Noncapital Financing Activities	<u>10,650</u>	<u>64,110</u>	<u>74,760</u>
Cash Flows used for Capital and Related Financing Activities			
Principal paid on long-term debt	(24,166)	(78,506)	(102,672)
Interest paid on long-term debt	(32,622)	(70,191)	(102,813)
Net Cash used for Capital and Related Financing Activities	<u>(56,788)</u>	<u>(148,697)</u>	<u>(205,485)</u>
Cash Flows from Investing Activities			
Cash received for interest	<u>106</u>	<u>56</u>	<u>162</u>
Net Cash from Investing Activities	<u>106</u>	<u>56</u>	<u>162</u>
Net Change in Cash and Cash Equivalents	18,063	15,263	33,326
Cash and Cash Equivalents - Beginning	<u>251,886</u>	<u>114,306</u>	<u>366,192</u>
Cash and Cash Equivalents - Ending	<u>\$ 269,949</u>	<u>\$ 129,569</u>	<u>\$ 399,518</u>
Cash and Cash Equivalents Consist of			
Cash and cash equivalents	\$ 187,448	\$ 129,569	\$ 317,017
Restricted cash and cash equivalents	82,501	-	82,501
	<u>\$ 269,949</u>	<u>\$ 129,569</u>	<u>\$ 399,518</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	<u>\$ 64,095</u>	<u>\$ 99,794</u>	<u>\$ 163,889</u>
Net Cash from Operating Activities	<u>\$ 64,095</u>	<u>\$ 99,794</u>	<u>\$ 163,889</u>

City of Faulkton
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds
Year Ended December 31, 2021

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 284,687	\$ 182,863	\$ 467,550
Payments to suppliers	(170,859)	(16,515)	(187,374)
Payments to employees	(49,443)	(47,966)	(97,409)
Net Cash from Operating Activities	<u>64,385</u>	<u>118,382</u>	<u>182,767</u>
Cash Flows from Noncapital Financing Activities			
Operating grants	<u>72,673</u>	<u>-</u>	<u>72,673</u>
Net Cash from Noncapital Financing Activities	<u>72,673</u>	<u>-</u>	<u>72,673</u>
Net Cash used for Capital and Related Financing Activities			
Principal paid on long-term debt	(23,402)	(76,863)	(100,265)
Interest paid on long-term debt	<u>(33,386)</u>	<u>(71,834)</u>	<u>(105,220)</u>
Net Cash used for Capital and Related Financing Activities	<u>(56,788)</u>	<u>(148,697)</u>	<u>(205,485)</u>
Cash Flows from Investing Activities			
Proceeds from redemption of certificate of deposit	22,769	-	22,769
Cash received for interest	<u>255</u>	<u>15</u>	<u>270</u>
Net Cash from Investing Activities	<u>23,024</u>	<u>15</u>	<u>23,039</u>
Net Change in Cash and Cash Equivalents	103,294	(30,300)	72,994
Cash and Cash Equivalents - Beginning	<u>148,592</u>	<u>144,606</u>	<u>293,198</u>
Cash and Cash Equivalents - Ending	<u>\$ 251,886</u>	<u>\$ 114,306</u>	<u>\$ 366,192</u>
Cash and Cash Equivalents Consist of			
Cash and cash equivalents	\$ 171,785	\$ 114,306	\$ 286,091
Restricted cash and cash equivalents	<u>80,101</u>	<u>-</u>	<u>80,101</u>
	<u>\$ 251,886</u>	<u>\$ 114,306</u>	<u>\$ 366,192</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	<u>\$ 64,385</u>	<u>\$ 118,382</u>	<u>\$ 182,767</u>
Net Cash from Operating Activities	<u>\$ 64,385</u>	<u>\$ 118,382</u>	<u>\$ 182,767</u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

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

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The City presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

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

The funds of the City are described below:

Governmental Funds

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

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

- **2nd Penny Sales Tax Fund** – A fund established by the City of Faulkton's Ordinance No. 6 to collect an additional 1% sales tax to be used for capital improvements, including water, sewer and airport improvements. This is a major fund.
- **Gross Receipts (3rd Penny Sales Tax) Fund** – To account for an additional 1% sales tax on the gross receipts of lodgings, alcoholic beverages, prepared food, and admissions, which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, and including promotion and advertising of the City (SDCL 10-52A-2). This is a major fund.

Proprietary Funds

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

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

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves modifications to the cash basis of accounting to report, in the statements of net position or balance sheets, cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such report balances include restricted cash and cash equivalents, investments in certificates of deposit (those with maturities more than 90 days (three months) from the date of acquisition) acquired with cash accounts at cost, and inter-fund advances and borrowing arising from the use of a pooled cash account.

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

D. Deposits and Investments

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

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity date of acquisition exceeds three months and/or those types of investment authorized by the SDCL 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

In the process of aggregating data for the government-wide financial statements, amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

F. Capital Assets

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

G. Long-Term Liabilities

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

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

H. Program Revenues

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

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

3. Program-Specific Capital Grants and Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary funds' statements of revenues, expenses and changes in fund net position, revenues and expenses are classified in a manner consistent with how they are classified in the statements of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

J. Cash and Cash Equivalents

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

K. Equity Classifications

Government-Wide Statements

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

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

Fund Financial Statements

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

L. Application of Net Position and Fund Balance

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

M. Fund Balance Classification Policies and Procedures

The following classifications describe the relative strength of the spending constraints, as applicable, within the fund balance sheets:

- **Nonspendable Fund Balance** – Amounts that are not in spendable form or are required to be maintained intact.
- **Restricted Fund Balance** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed Fund Balance** – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- **Assigned Fund Balance** – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- **Unassigned Fund Balance** – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

Note 2 - Deposits and Investments

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

Deposits

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA," or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2022 and 2021, the City maintained their deposits in in-state financial institutions which were properly collateralized.

The actual bank balances at December 31, 2022 and 2021, are as follows:

	2022 Bank Balance	2021 Bank Balance
Insured (FDIC/NCUA)	\$ 457,474	\$ 457,371
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	1,249,021	1,049,875
	\$ 1,706,495	\$ 1,507,246

The City's carrying amount of deposits at December 31, 2022 and 2021, are as follows:

	2022	2021
Cash and cash equivalents	\$ 1,483,176	\$ 1,291,597
Investments	207,474	207,370
	\$ 1,690,650	\$ 1,498,967

Investments

In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or, otherwise, directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of SDCL 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2022 and 2021, the City's investments consisted solely of certificates of deposit which have maturities of less than one year.

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

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

Note 3 - Property Taxes

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

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

Note 4 - Restricted Net Position

Restricted net position for the year ended December 31, 2022 and 2021, was as follows:

<u>Purpose</u>	<u>Restricted By</u>	<u>2022</u>	<u>2021</u>
2nd Penny Sales Tax Fund	State Law	\$ 293,414	\$ 249,189
Gross Receipts Fund	State Law	29,881	31,414
Water Fund			
Debt service	Covenants	52,501	52,501
Equipment repairs and replacement	Covenants	30,000	27,600
Sewer Fund			
Debt service	Covenants	107,456	94,910

Note 5 - Retirement Plan

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

Benefits Provided

SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service.

An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Eligible spouses of Class A and B Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater than or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.0% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6% of salary; Class B judicial members, 9% of salary; and Class B public safety members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the years ended December 31, 2022, 2021 and 2020, were \$9,860, \$9,134 and \$8,892, respectively, equal to the required contributions each year.

Pension Liability (Asset)

At June 30, 2022 and 2021, SDRS is 100.10% and 105.52% funded, respectively, and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System for the City as of the measurement period ending June 30, 2022 and 2021, and disclosed by the City of Faulkton as of December 31, 2022 and 2021, are as follows:

	2022	2021
Proportionate share of net position restricted for pension benefits	\$ 950,613	\$ 915,596
Less proportionate share of total pension liability	951,250	966,164
Proportionate share of net pension liability (asset)	\$ (637)	\$ (50,568)

At December 31, 2022 and 2021, the City disclosed a liability (asset) of (\$637) and (\$50,568), 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 City’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City’s proportion was 0.006734%, which is an increase of 0.000131% from its proportion measured as of June 30, 2021. At June 30, 2021, the City’s proportion was 0.006603%, which is a decrease of 0.0001359% from its proportion measured as of June 30, 2020. The City’s proportionate share of the net pension liability (asset) is not reported in financial statements shown under the modified accrual basis of accounting.

Actuarial Assumptions

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

Inflation	2.50%
Salary increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%.
Future COLAs	2.10%
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 Retirees: PubS-2010, 102% of rates at all ages	
Beneficiaries:	
PubG-2010 contingent survivor mortality table	
Disabled Members:	
Public Safety: PubS-2010 disabled member mortality table	
Others: PubG-2010 disabled member mortality table	

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0 %	3.7 %
Fixed Income	30.0	1.1
Real Estate	10.0	2.6
Cash	2.0	0.4
	1.0 %	

Discount Rate

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

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

The following presents the City's proportionate share of net pension liability (asset) as of June 30, 2022, calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 132,144	\$ (637)	\$ (109,153)

Pension Plan Fiduciary Net Position

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

Note 6 - Conduit Debt

The City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property of the private-sector entity being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the City, the State of South Dakota, nor any other political subdivision of the State is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2022, there was one series of conduit bonds outstanding with an unpaid principal amount of approximately \$5.84 million.

Note 7 - Significant Contingencies - Litigation

Litigation

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

Note 8 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2022 and 2021, the City managed its risks as follows:

Employee Health Insurance

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

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

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information, and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a members' annual operating contribution, to provide liability coverage detailed below, under an occurrence-made policy and the premiums are accrued based on the ultimate cost of the experience-to-date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, automobile liability, and official's liability. The City purchases airport liability insurance coverage from a commercial insurance carrier.

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

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

Workers' Compensation

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

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

Unemployment Benefits

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

During the years ended December 31, 2022, no claims for unemployment benefits were paid. At December 31, 2022, no claims had been filed for unemployment and none are anticipated in the next fiscal year.

Note 9 - Subsequent Events

Subsequent to year-end, the City purchased two parcels of land for approximately \$36,000 which will be used for an airport project. The City used cash on hand to fund the purchase.



Supplementary Information
December 31, 2022 and 2021
City of Faulkton

City of Faulkton
 Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions
 December 31, 2022 and 2021

Schedule of Net Pension Liability (Asset)*

Pension Plan	Fiscal Year Ending	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension 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	0.6734%	\$ (637)	\$ 157,849	-0.4%	100.10%
SDRS	6/30/2021	0.6603%	(50,568)	149,924	-33.7%	105.52%
SDRS	6/30/2020	0.6739%	(293)	147,900	-0.2%	100.04%
SDRS	6/30/2019	0.7530%	(798)	160,117	-0.5%	100.09%
SDRS	6/30/2018	0.7154%	(167)	148,733	-0.1%	100.02%
SDRS	6/30/2017	0.7196%	(653)	146,200	-0.4%	100.10%
SDRS	6/30/2016	0.7667%	25,897	145,783	17.8%	96.89%
SDRS	6/30/2015	0.7455%	(31,617)	136,100	-23.2%	104.10%
SDRS	6/30/2014	0.8117%	(58,481)	141,950	-41.2%	107.30%

Schedule of Pension Contributions*

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	\$ 9,860	\$ 9,860	\$ -	\$ 164,339	6.0%
SDRS	12/31/2021	9,134	9,134	-	152,237	6.0%
SDRS	12/31/2020	8,892	8,892	-	148,200	6.0%
SDRS	12/31/2019	9,482	9,482	-	158,033	6.0%
SDRS	12/31/2018	9,179	9,179	-	152,983	6.0%
SDRS	12/31/2017	8,783	8,783	-	146,383	6.0%
SDRS	12/31/2016	8,819	8,819	-	146,983	6.0%
SDRS	12/31/2015	8,237	8,237	-	137,283	6.0%
SDRS	12/31/2014	8,679	8,679	-	144,650	6.0%

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

City of Faulkton
Schedule of Changes in Long-Term Debt
Years Ended December 31, 2022 and 2021

<u>Indebtedness</u>	<u>Long-Term Debt 1/1/22</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/22</u>
Enterprise Long-Term Debt				
2010 Rural Development loan	\$ 933,161	\$ -	\$ 21,057	\$ 912,104
2017 Rural Development loan	2,783,367	-	59,093	2,724,274
State Revolving Fund loan				
Drinking Water 2011	88,061	-	3,109	84,952
Clean Water 2014	682,799	-	19,413	663,386
	<u>\$ 4,487,388</u>	<u>\$ -</u>	<u>\$ 102,672</u>	<u>\$ 4,384,716</u>
<u>Indebtedness</u>	<u>Long-Term Debt 1/1/21</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt 12/31/21</u>
Enterprise Long-Term Debt				
2010 Rural Development loan	\$ 953,545	\$ -	\$ 20,384	\$ 933,161
2017 Rural Development loan	2,841,435	-	58,068	2,783,367
State Revolving Fund loan				
Drinking Water 2011	91,079	-	3,018	88,061
Clean Water 2014	701,594	-	18,795	682,799
	<u>\$ 4,587,653</u>	<u>\$ -</u>	<u>\$ 100,265</u>	<u>\$ 4,487,388</u>

City of Faulkton
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 244,490	\$ 244,490	\$ 244,523	\$ 33
313 General sales and use taxes	170,000	170,000	200,201	30,201
319 Penalties and interest on delinquent taxes	200	200	619	419
Total taxes	<u>414,690</u>	<u>414,690</u>	<u>445,343</u>	<u>30,653</u>
320 Licenses and permits	<u>10,300</u>	<u>10,300</u>	<u>14,221</u>	<u>3,921</u>
330 Intergovernmental revenue				
334 State grants	-	3,408	3,408	-
335 State shared revenue:				
335.01 Bank franchise tax	1,000	1,000	1,800	800
335.03 Liquor tax reversion	4,500	4,500	5,788	1,288
335.04 Motor vehicle licenses (5%)	15,000	15,000	18,719	3,719
335.08 Local government highway and bridge fund	30,000	30,000	37,091	7,091
335.20 Other	1,000	1,000	1,863	863
338 County shared revenue				
338.01 County road tax (25%)	2,400	2,400	2,422	22
Total intergovernmental revenue	<u>53,900</u>	<u>57,308</u>	<u>71,091</u>	<u>13,783</u>
340 Charges for goods and services				
344 Sanitation	250	250	8,925	8,675
346 Culture and recreation	16,000	16,000	22,308	6,308
Total charges for goods and services	<u>16,250</u>	<u>16,250</u>	<u>31,233</u>	<u>14,983</u>
350 Fines and forfeits				
351 Court fines and costs	-	-	1,150	1,150
Total fines and forfeits	<u>-</u>	<u>-</u>	<u>1,150</u>	<u>1,150</u>
360 Miscellaneous revenue				
361 Investment earnings	500	500	346	(154)
362 Rentals	8,500	8,500	13,173	4,673
367 Contributions and donations from private sources	-	-	4,829	4,829
369 Other	-	-	1,425	1,425
Total miscellaneous revenue	<u>9,000</u>	<u>9,000</u>	<u>19,773</u>	<u>10,773</u>
Total revenues	<u>504,140</u>	<u>507,548</u>	<u>582,811</u>	<u>75,263</u>

City of Faulkton
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	19,448	19,448	13,890	5,558
411.5 Contingency	20,000	20,000		
Amount transferred	-	(18,473)	-	1,527
412 Executive	8,148	8,662	8,662	-
413 Elections	2,000	2,000	-	2,000
414 Financial administration	83,368	88,568	78,472	10,096
419 Other	24,250	25,976	25,557	419
Total general government	<u>157,214</u>	<u>146,181</u>	<u>126,581</u>	<u>19,600</u>
420 Public safety				
421 Police	46,229	46,229	46,229	-
422 Fire	15,000	15,000	13,486	1,514
Total public safety	<u>61,229</u>	<u>61,229</u>	<u>59,715</u>	<u>1,514</u>
430 Public works				
431 Highways and streets	303,850	305,688	288,966	16,722
432 Sanitation	15,265	22,460	22,460	-
435 Airport	11,125	11,125	9,048	2,077
437 Cemeteries	4,000	4,000	4,000	-
Total public works	<u>334,240</u>	<u>343,273</u>	<u>324,474</u>	<u>18,799</u>
440 Health and welfare				
441 Health	8,400	11,808	8,569	3,239
Total health and welfare	<u>8,400</u>	<u>11,808</u>	<u>8,569</u>	<u>3,239</u>
450 Culture and recreation				
451 Recreation	78,713	78,713	70,340	8,373
452 Parks	20,471	20,471	12,182	8,289
456 Auditorium	18,500	18,500	17,269	1,231
Total culture and recreation	<u>117,684</u>	<u>117,684</u>	<u>99,791</u>	<u>17,893</u>
460 Conservation and development				
465 Economic development and assistance	15,000	15,000	13,722	1,278
Total conservation and development	<u>15,000</u>	<u>15,000</u>	<u>13,722</u>	<u>1,278</u>
Total expenditures	<u>693,767</u>	<u>695,175</u>	<u>632,852</u>	<u>62,323</u>
Other Financing Sources				
391.03 Sale of municipal property	-	-	165,650	165,650
Total other financing sources	<u>-</u>	<u>-</u>	<u>165,650</u>	<u>165,650</u>
Excess of Revenue over (under) Expenditures	(189,627)	(187,627)	115,609	303,236
Fund Balance - Beginning	740,430	740,430	740,430	-
Fund Balance - Ending	<u>\$ 550,803</u>	<u>\$ 552,803</u>	<u>\$ 856,039</u>	<u>\$ 303,236</u>

City of Faulkton
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 238,620	\$ 238,620	\$ 241,156	\$ 2,536
313 General sales and use taxes	170,000	170,000	176,955	6,955
319 Penalties and interest on delinquent taxes	200	200	640	440
Total taxes	<u>408,820</u>	<u>408,820</u>	<u>418,751</u>	<u>9,931</u>
320 Licenses and permits	<u>10,300</u>	<u>10,300</u>	<u>13,844</u>	<u>3,544</u>
330 Intergovernmental revenue				
331 Federal grants	-	-	2,494	2,494
334 State grants	-	3,000	3,000	-
335 State shared revenue:				
335.01 Bank franchise tax	500	500	1,415	915
335.03 Liquor tax reversion	4,000	4,000	5,511	1,511
335.04 Motor vehicle licenses (5%)	12,000	12,000	17,763	5,763
335.08 Local government highway and bridge fund	30,000	30,000	35,652	5,652
335.20 Other	1,000	1,000	2,335	1,335
338 County shared revenue				
338.01 County road tax (25%)	2,400	2,400	2,422	22
Total intergovernmental revenue	<u>49,900</u>	<u>52,900</u>	<u>70,592</u>	<u>17,692</u>
340 Charges for goods and services				
344 Sanitation	350	350	160	(190)
346 Culture and recreation	14,500	14,500	22,222	7,722
Total charges for goods and services	<u>14,850</u>	<u>14,850</u>	<u>22,382</u>	<u>7,532</u>
350 Fines and forfeits				
351 Court fines and costs	-	-	1,300	1,300
359 Other fines and forfeits	-	-	135	135
Total fines and forfeits	<u>-</u>	<u>-</u>	<u>1,435</u>	<u>1,435</u>
360 Miscellaneous revenue				
361 Investment earnings	500	500	1,071	571
362 Rentals	8,500	8,500	8,136	(364)
367 Contributions and donations from private sources	-	-	4,613	4,613
369 Other	-	-	1,229	1,229
Total miscellaneous revenue	<u>9,000</u>	<u>9,000</u>	<u>15,049</u>	<u>6,049</u>
Total revenues	<u>492,870</u>	<u>495,870</u>	<u>542,053</u>	<u>46,183</u>

City of Faulkton
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	24,948	24,948	20,314	4,634
411.5 Contingency	20,000	20,000		
Amount transferred	-	(16,261)	-	3,739
412 Executive	6,699	6,699	5,947	752
413 Elections	2,000	2,000	115	1,885
414 Financial administration	90,291	90,291	72,118	18,173
419 Other	25,250	29,435	23,814	5,621
Total general government	<u>169,188</u>	<u>157,112</u>	<u>122,308</u>	<u>34,804</u>
420 Public safety				
421 Police	46,229	46,229	46,229	-
422 Fire	13,500	13,684	13,684	-
Total public safety	<u>59,729</u>	<u>59,913</u>	<u>59,913</u>	<u>-</u>
430 Public works				
431 Highways and streets	256,609	264,552	255,372	9,180
432 Sanitation	13,289	15,142	15,142	-
435 Airport	10,625	14,470	10,740	3,730
437 Cemeteries	4,000	4,000	4,000	-
Total public works	<u>284,523</u>	<u>298,164</u>	<u>285,254</u>	<u>12,910</u>
440 Health and welfare				
441 Health	8,400	11,400	7,027	4,373
Total health and welfare	<u>8,400</u>	<u>11,400</u>	<u>7,027</u>	<u>4,373</u>
450 Culture and recreation				
451 Recreation	67,963	69,309	54,253	15,056
452 Parks	13,471	13,471	12,536	935
456 Auditorium	18,200	18,200	18,116	84
Total culture and recreation	<u>99,634</u>	<u>100,980</u>	<u>84,905</u>	<u>16,075</u>
460 Conservation and development				
465 Economic development and assistance	17,000	17,000	13,561	3,439
Total conservation and development	<u>17,000</u>	<u>17,000</u>	<u>13,561</u>	<u>3,439</u>
Total expenditures	<u>638,474</u>	<u>644,569</u>	<u>572,968</u>	<u>71,601</u>
Other Financing Sources				
391.03 Sale of municipal property	-	-	731	731
Total other financing sources	<u>-</u>	<u>-</u>	<u>731</u>	<u>731</u>
Excess of Revenue over (under) Expenditures	(145,604)	(148,699)	(30,184)	118,515
Fund Balance - Beginning	770,614	770,614	770,614	-
Fund Balance - Ending	<u>\$ 625,010</u>	<u>\$ 621,915</u>	<u>\$ 740,430</u>	<u>\$ 118,515</u>

City of Faulkton
 Budgetary Comparison Schedule – 2nd Penny Fund
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 170,000	\$ 170,000	\$ 200,201	\$ 30,201
Total taxes	170,000	170,000	200,201	30,201
330 Intergovernmental revenue				
331 Federal grants	-	17,947	17,947	-
Total intergovernmental revenue	-	17,947	17,947	-
360 Miscellaneous revenue				
361 Investment earnings	-	-	1,650	1,650
Total miscellaneous revenue	-	-	1,650	1,650
Total revenues	170,000	187,947	219,798	31,851
Expenditures				
430 Public works				
431 Highways and streets	60,000	60,000	60,000	-
435 Airport	49,150	85,946	85,945	1
Total public works	109,150	145,946	145,945	1
450 Culture and recreation				
451 Recreation	3,000	4,000	4,000	-
452 Parks	3,000	4,000	4,000	-
Total culture and recreation	6,000	8,000	8,000	-
460 Conservation and development				
465 Economic development and assistance	60,000	60,000	21,628	38,372
Total conservation and development	60,000	60,000	21,628	38,372
Total expenditures	175,150	213,946	175,573	38,373
Excess of Revenue over (under) Expenditures	(5,150)	(25,999)	44,225	70,224
Fund Balance - Beginning	249,189	249,189	249,189	-
Fund Balance - Ending	<u>\$ 244,039</u>	<u>\$ 223,190</u>	<u>\$ 293,414</u>	<u>\$ 70,224</u>

City of Faulkton
 Budgetary Comparison Schedule – 2nd Penny Fund
 Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 170,000	\$ 170,000	\$ 176,955	\$ 6,955
Total taxes	170,000	170,000	176,955	6,955
330 Intergovernmental revenue				
331 Federal grants	-	47,241	48,599	1,358
334 State grants	-	-	2,486	2,486
Total intergovernmental revenue	-	47,241	51,085	3,844
360 Miscellaneous revenue				
361 Investment earnings	-	-	398	398
Total miscellaneous revenue	-	-	398	398
Total revenues	170,000	217,241	228,438	11,197
Expenditures				
430 Public works				
431 Highways and streets	40,000	40,000	40,000	-
435 Airport	-	47,241	23,191	24,050
Total public works	40,000	87,241	63,191	24,050
450 Culture and recreation				
452 Parks	-	3,245	3,245	-
Total culture and recreation	-	3,245	3,245	-
460 Conservation and development				
465 Economic development and assistance	60,000	60,000	56,702	3,298
Total conservation and development	60,000	60,000	56,702	3,298
Total expenditures	100,000	150,486	123,138	27,348
Excess of Revenue over (under) Expenditures	70,000	66,755	105,300	38,545
Fund Balance - Beginning	143,889	143,889	143,889	-
Fund Balance - Ending	\$ 213,889	\$ 210,644	\$ 249,189	\$ 38,545

City of Faulkton
 Budgetary Comparison Schedule – Gross Receipts Fund
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
314 Gross receipts business taxes	\$ 15,000	\$ 15,000	\$ 14,432	\$ (568)
Total taxes	15,000	15,000	14,432	(568)
Total revenues	15,000	15,000	14,432	(568)
Expenditures				
460 Conservation and development				
465 Economic development and assistance	15,965	15,965	15,965	-
Total conservation and development	15,965	15,965	15,965	-
Total expenditures	15,965	15,965	15,965	-
Excess of Revenue over (under) Expenditures	(965)	(965)	(1,533)	(568)
Fund Balance - Beginning	31,414	31,414	31,414	-
Fund Balance - Ending	\$ 30,449	\$ 30,449	\$ 29,881	\$ (568)

City of Faulkton
 Budgetary Comparison Schedule – Gross Receipts Fund
 Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
314 Gross receipts business taxes	\$ 16,365	\$ 16,365	\$ 12,418	\$ (3,947)
Total taxes	<u>16,365</u>	<u>16,365</u>	<u>12,418</u>	<u>(3,947)</u>
Total revenues	<u>16,365</u>	<u>16,365</u>	<u>12,418</u>	<u>(3,947)</u>
Expenditures				
460 Conservation and development				
465 Economic development and assistance	16,365	16,365	11,365	5,000
Total conservation and development	<u>16,365</u>	<u>16,365</u>	<u>11,365</u>	<u>5,000</u>
Total expenditures	<u>16,365</u>	<u>16,365</u>	<u>11,365</u>	<u>5,000</u>
Excess of Revenue over (under) Expenditures	-	-	1,053	1,053
Fund Balance - Beginning	<u>30,361</u>	<u>30,361</u>	<u>30,361</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 30,361</u>	<u>\$ 30,361</u>	<u>\$ 31,414</u>	<u>\$ 1,053</u>

Note 1 - Budgets and Budgetary Accounting

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

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

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

The City did not encumber any amounts at December 31, 2022 and 2021.

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

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements presented on the modified cash basis of accounting and budgetary basis of accounting are reporting capital outlay expenditures under the function to which they relate.

Note 3 - Schedule of Proportionate Share of the Net Pension Liability (Asset) and Pension Contributions

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 Directors in April and June 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Directors 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 Directors 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.



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

The City Council
City of Faulkton
Faulkton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Faulkton (the City) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 24, 2025. In our report, we issued an adverse opinion on the discretely presented component unit because the financial statements included only the primary government and not the City's legally separate component unit. The financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

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

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2022-001, 2022-002, 2021-001, and 2021-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

City of Faulkton's Response to Findings

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

Purpose of this Report

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



Aberdeen, South Dakota
January 24, 2025

2022-001 and 2021-001 Auditor Preparation of Financial Statements and Footnotes

Material Weakness

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

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes which could cause the need for auditors to, at times, propose material journal entries and assist in this process.

Effect: This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

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

Views of Responsible Officials: Management agrees with the finding.

2022-002 and 2021-002 Lack of Segregation of Duties

Material Weakness

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

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

Cause: The City has an insufficient number of staff to adequately separate duties.

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

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

Views of Responsible Officials: Management agrees with the finding.