



Financial Statements  
December 31, 2024 and 2023  
City of Faulkton

Independent Auditor’s Report .....	1
Financial Statements	
Statements of Net Position – Modified Cash Basis.....	4
Statements of Activities – Modified Cash Basis .....	6
Balance Sheets – Modified Cash Basis – Governmental Funds .....	8
Statements of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental Funds.....	10
Balance Sheets – Modified Cash Basis – Proprietary Funds .....	14
Statements of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds.....	16
Statements of Cash Flows – Modified Cash Basis – Proprietary Funds .....	18
Notes to Financial Statements .....	20
Supplementary Information	
Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions .....	34
Schedule of Changes in Long-Term Debt .....	35
Budgetary Comparison Schedules – General Fund.....	36
Budgetary Comparison Schedules – 2nd Penny Fund .....	40
Budgetary Comparison Schedules – Gross Receipts Fund.....	42
Notes to Supplementary Information.....	44
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	46
Schedule of Findings and Responses .....	48



## 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, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023, 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 August 29, 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  
August 29, 2025

City of Faulkton  
Statement of Net Position – Modified Cash Basis  
December 31, 2024

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,040,096	\$ 288,060	\$ 1,328,156
Investments	96,924	-	96,924
<b>Restricted assets</b>			
Cash and cash equivalents	-	132,366	132,366
Investments	-	113,256	113,256
Total assets	<u>\$ 1,137,020</u>	<u>\$ 533,682</u>	<u>\$ 1,670,702</u>
<b>Net Position</b>			
<b>Restricted for</b>			
Debt service	\$ -	\$ 210,822	\$ 210,822
Equipment repairs and replacement	-	34,800	34,800
2nd Penny Fund	351,253	-	351,253
Gross Receipts Fund	29,661	-	29,661
Unrestricted	<u>756,106</u>	<u>288,060</u>	<u>1,044,166</u>
Total net position	<u>1,137,020</u>	<u>533,682</u>	<u>1,670,702</u>
	<u>\$ 1,137,020</u>	<u>\$ 533,682</u>	<u>\$ 1,670,702</u>

City of Faulkton  
Statement of Net Position – Modified Cash Basis  
December 31, 2023

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 971,973	\$ 296,912	\$ 1,268,885
Investments	95,724	-	95,724
Restricted assets			
Cash and cash equivalents	-	104,624	104,624
Investments	-	111,854	111,854
Total assets	<u>\$ 1,067,697</u>	<u>\$ 513,390</u>	<u>\$ 1,581,087</u>
<b>Net Position</b>			
Restricted for			
Debt service	\$ -	\$ 184,078	\$ 184,078
Equipment repairs and replacement	-	32,400	32,400
2nd Penny Fund	256,116	-	256,116
Gross Receipts Fund	27,890	-	27,890
Unrestricted	<u>783,691</u>	<u>296,912</u>	<u>1,080,603</u>
Total net position	<u>1,067,697</u>	<u>513,390</u>	<u>1,581,087</u>
	<u>\$ 1,067,697</u>	<u>\$ 513,390</u>	<u>\$ 1,581,087</u>

City of Faulkton  
Statement of Activities – Modified Cash Basis  
Year Ended December 31, 2024

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
<b>Primary Government</b>							
Governmental activities							
General government	\$ 147,993	\$ 13,853	\$ 6,015	\$ -	\$ (128,125)	\$ -	\$ (128,125)
Public safety	59,965	3,900	-	45,269	(10,796)	-	(10,796)
Public works	424,661	3,617	64,720	-	(356,324)	-	(356,324)
Health and welfare	11,257	-	-	-	(11,257)	-	(11,257)
Culture and recreation	140,124	28,489	-	315	(111,320)	-	(111,320)
Conservation and development	67,630	-	-	-	(67,630)	-	(67,630)
Total governmental activities	<u>851,630</u>	<u>49,859</u>	<u>70,735</u>	<u>45,584</u>	<u>(685,452)</u>	<u>-</u>	<u>(685,452)</u>
Business-type activities							
Water	297,950	321,684	3,332	-	-	27,066	27,066
Sewer	213,916	204,768	-	-	-	(9,148)	(9,148)
Total business-type activities	<u>511,866</u>	<u>526,452</u>	<u>3,332</u>	<u>-</u>	<u>-</u>	<u>17,918</u>	<u>17,918</u>
Total primary government	<u>\$ 1,363,496</u>	<u>\$ 576,311</u>	<u>\$ 74,067</u>	<u>\$ 45,584</u>	<u>(685,452)</u>	<u>17,918</u>	<u>(667,534)</u>
<b>General Revenues</b>							
Taxes							
Property taxes					266,053	-	266,053
Sales taxes					438,560	-	438,560
Gross receipts					21,945	-	21,945
State shared revenues					7,180	-	7,180
Unrestricted investment earnings					13,324	2,374	15,698
Gain in sale of property					706	-	706
Miscellaneous revenue					7,007	-	7,007
Total general revenues					<u>754,775</u>	<u>2,374</u>	<u>757,149</u>
Change in Net Position					69,323	20,292	89,615
Net Position - Beginning					1,067,697	513,390	1,581,087
Net Position - Ending					<u>\$ 1,137,020</u>	<u>\$ 533,682</u>	<u>\$ 1,670,702</u>

See Notes to Financial Statements

City of Faulkton  
Statement of Activities – Modified Cash Basis  
Year Ended December 31, 2023

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	
<b>Primary Government</b>							
Governmental activities							
General government	\$ 132,386	\$ 14,494	\$ 31,841	\$ -	\$ (86,051)	\$ -	\$ (86,051)
Public safety	63,824	3,200	6,467	32,741	(21,416)	-	(21,416)
Public works	487,323	3,170	60,472	-	(423,681)	-	(423,681)
Health and welfare	14,350	-	-	-	(14,350)	-	(14,350)
Culture and recreation	247,074	31,158	-	-	(215,916)	-	(215,916)
Conservation and development	77,928	-	-	-	(77,928)	-	(77,928)
Total governmental activities	<u>1,022,885</u>	<u>52,022</u>	<u>98,780</u>	<u>32,741</u>	<u>(839,342)</u>	<u>-</u>	<u>(839,342)</u>
Business-type activities							
Water	300,166	297,980	8,172	-	-	5,986	5,986
Sewer	206,636	201,984	-	-	-	(4,652)	(4,652)
Total business-type activities	<u>506,802</u>	<u>499,964</u>	<u>8,172</u>	<u>-</u>	<u>-</u>	<u>1,334</u>	<u>1,334</u>
Total primary government	<u>\$ 1,529,687</u>	<u>\$ 551,986</u>	<u>\$ 106,952</u>	<u>\$ 32,741</u>	<u>(839,342)</u>	<u>1,334</u>	<u>(838,008)</u>
<b>General Revenues</b>							
Taxes							
Property taxes					256,843	-	256,843
Sales taxes					434,328	-	434,328
Gross receipts					16,218	-	16,218
State shared revenues					7,489	-	7,489
Unrestricted investment earnings					11,260	740	12,000
Gain in sale of property					150	-	150
Miscellaneous revenue					1,417	-	1,417
Total general revenues					<u>727,705</u>	<u>740</u>	<u>728,445</u>
Change in Net Position					(111,637)	2,074	(109,563)
Net Position - Beginning					<u>1,179,334</u>	<u>511,316</u>	<u>1,690,650</u>
Net Position - Ending					<u>\$ 1,067,697</u>	<u>\$ 513,390</u>	<u>\$ 1,581,087</u>

See Notes to Financial Statements

City of Faulkton  
 Balance Sheet – Modified Cash Basis – Governmental Funds  
 December 31, 2024

	General Fund	2nd Penny Fund	Gross Receipts Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 659,182	\$ 351,253	\$ 29,661	\$ 1,040,096
Investments	96,924	-	-	96,924
<b>Total assets</b>	<b>\$ 756,106</b>	<b>\$ 351,253</b>	<b>\$ 29,661</b>	<b>\$ 1,137,020</b>
<b>Fund Balances</b>				
Restricted	\$ -	\$ 351,253	\$ 29,661	\$ 380,914
Assigned	250,250	-	-	250,250
Unassigned	505,856	-	-	505,856
<b>Total fund balance</b>	<b>756,106</b>	<b>351,253</b>	<b>29,661</b>	<b>1,137,020</b>
	<b>\$ 756,106</b>	<b>\$ 351,253</b>	<b>\$ 29,661</b>	<b>\$ 1,137,020</b>

	General Fund	2nd Penny Fund	Gross Receipts Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 687,967	\$ 256,116	\$ 27,890	\$ 971,973
Investments	95,724	-	-	95,724
<b>Total assets</b>	<b>\$ 783,691</b>	<b>\$ 256,116</b>	<b>\$ 27,890</b>	<b>\$ 1,067,697</b>
<b>Fund Balances</b>				
Restricted	\$ -	\$ 256,116	\$ 27,890	\$ 284,006
Assigned	100,250	-	-	100,250
Unassigned	683,441	-	-	683,441
<b>Total fund balance</b>	<b>783,691</b>	<b>256,116</b>	<b>27,890</b>	<b>1,067,697</b>
	<b>\$ 783,691</b>	<b>\$ 256,116</b>	<b>\$ 27,890</b>	<b>\$ 1,067,697</b>

City of Faulkton  
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis –  
Governmental Funds  
Year Ended December 31, 2024

	General Fund	2nd Penny Fund	Gross Receipts Fund	Total Governmental Funds
<b>Revenues</b>				
310 Taxes				
311 General property taxes	\$ 265,640	\$ -	\$ -	\$ 265,640
313 General sales and use taxes	219,280	219,280	-	438,560
314 Gross receipts business taxes	-	-	21,945	21,945
319 Penalties and interest on delinquent taxes	413	-	-	413
Total taxes	<u>485,333</u>	<u>219,280</u>	<u>21,945</u>	<u>726,558</u>
320 Licenses and permits	<u>13,853</u>	<u>-</u>	<u>-</u>	<u>13,853</u>
330 Intergovernmental revenue				
331 Federal grants	-	45,269	-	45,269
334 State grants	3,500	2,515	-	6,015
335 State shared revenue				
335.01 Bank franchise tax	1,531	-	-	1,531
335.03 Liquor tax reversion	5,649	-	-	5,649
335.04 Motor vehicle licenses (5%)	19,744	-	-	19,744
335.08 Local government highway and bridge fund	39,334	-	-	39,334
335.20 Other	3,120	-	-	3,120
338 County shared revenue				
338.01 County road tax (25%)	2,422	-	-	2,422
338.99 Other	100	-	-	100
Total intergovernmental revenue	<u>75,400</u>	<u>47,784</u>	<u>-</u>	<u>123,184</u>
340 Charges for goods and services				
344 Sanitation	3,617	-	-	3,617
346 Culture and recreation	23,179	-	-	23,179
Total charges for goods and services	<u>26,796</u>	<u>-</u>	<u>-</u>	<u>26,796</u>
350 Fines and forfeits				
351 Court fines and costs	3,875	-	-	3,875
359 Other fines and forfeits	25	-	-	25
Total fines and forfeits	<u>3,900</u>	<u>-</u>	<u>-</u>	<u>3,900</u>
360 Miscellaneous revenue				
361 Investment earnings	2,978	10,304	42	13,324
362 Rentals	5,310	-	-	5,310
367 Contributions and donations from private sources	315	-	-	315
369 Other	7,007	-	-	7,007
Total miscellaneous revenue	<u>15,610</u>	<u>10,304</u>	<u>42</u>	<u>25,956</u>
Total revenues	<u>620,892</u>	<u>277,368</u>	<u>21,987</u>	<u>920,247</u>

City of Faulkton  
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis –  
Governmental Funds  
Year Ended December 31, 2024

	General Fund	2nd Penny Fund	Gross Receipts Fund	Total Governmental Funds
Expenditures				
410 General government				
411 Legislative	13,736	-	-	13,736
412 Executive	8,369	-	-	8,369
414 Financial administration	100,738	-	-	100,738
419 Other	25,150	-	-	25,150
Total general government	<u>147,993</u>	<u>-</u>	<u>-</u>	<u>147,993</u>
420 Public safety				
421 Police	46,229	-	-	46,229
422 Fire	13,736	-	-	13,736
Total public safety	<u>59,965</u>	<u>-</u>	<u>-</u>	<u>59,965</u>
430 Public works				
431 Highways and streets	262,468	125,000	-	387,468
432 Sanitation	13,731	-	-	13,731
435 Airport	11,937	7,525	-	19,462
437 Cemeteries	4,000	-	-	4,000
Total public works	<u>292,136</u>	<u>132,525</u>	<u>-</u>	<u>424,661</u>
440 Health and welfare				
441 Health	11,257	-	-	11,257
Total health and welfare	<u>11,257</u>	<u>-</u>	<u>-</u>	<u>11,257</u>
450 Culture and recreation				
451 Recreation	95,125	29,706	-	124,831
452 Parks	15,293	-	-	15,293
Total culture and recreation	<u>110,418</u>	<u>29,706</u>	<u>-</u>	<u>140,124</u>
460 Conservation and development				
465 Economic development and assistance	27,414	20,000	20,216	67,630
Total conservation and development	<u>27,414</u>	<u>20,000</u>	<u>20,216</u>	<u>67,630</u>
Total expenditures	<u>649,183</u>	<u>182,231</u>	<u>20,216</u>	<u>851,630</u>
Other Financing Sources				
391.03 Sale of municipal property	706	-	-	706
Total other financing sources	<u>706</u>	<u>-</u>	<u>-</u>	<u>706</u>
Net Change in Fund Balance	(27,585)	95,137	1,771	69,323
Fund Balance - Beginning	<u>783,691</u>	<u>256,116</u>	<u>27,890</u>	<u>1,067,697</u>
Fund Balance - Ending	<u>\$ 756,106</u>	<u>\$ 351,253</u>	<u>\$ 29,661</u>	<u>\$ 1,137,020</u>

City of Faulkton  
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis –  
Governmental Funds  
Year Ended December 31, 2023

	General Fund	2nd Penny Fund	Gross Receipts Fund	Total Governmental Funds
<b>Revenues</b>				
310 Taxes				
311 General property taxes	\$ 256,298	\$ -	\$ -	\$ 256,298
313 General sales and use taxes	217,164	217,164	-	434,328
314 Gross receipts business taxes	-	-	16,218	16,218
319 Penalties and interest on delinquent taxes	545	-	-	545
Total taxes	<u>474,007</u>	<u>217,164</u>	<u>16,218</u>	<u>707,389</u>
320 Licenses and permits	<u>14,494</u>	<u>-</u>	<u>-</u>	<u>14,494</u>
330 Intergovernmental revenue				
331 Federal grants	6,467	32,741	-	39,208
334 State grants	31,841	-	-	31,841
335 State shared revenue				
335.01 Bank franchise tax	1,811	-	-	1,811
335.03 Liquor tax reversion	5,678	-	-	5,678
335.04 Motor vehicle licenses (5%)	18,214	-	-	18,214
335.08 Local government highway and bridge fund	39,836	-	-	39,836
338 County shared revenue				
338.01 County road tax (25%)	2,422	-	-	2,422
Total intergovernmental revenue	<u>106,269</u>	<u>32,741</u>	<u>-</u>	<u>139,010</u>
340 Charges for goods and services				
344 Sanitation	3,170	-	-	3,170
346 Culture and recreation	23,792	-	-	23,792
Total charges for goods and services	<u>26,962</u>	<u>-</u>	<u>-</u>	<u>26,962</u>
350 Fines and forfeits				
351 Court fines and costs	3,200	-	-	3,200
Total fines and forfeits	<u>3,200</u>	<u>-</u>	<u>-</u>	<u>3,200</u>
360 Miscellaneous revenue				
361 Investment earnings	1,439	9,821	-	11,260
362 Rentals	7,366	-	-	7,366
369 Other	1,417	-	-	1,417
Total miscellaneous revenue	<u>10,222</u>	<u>9,821</u>	<u>-</u>	<u>20,043</u>
Total revenues	<u>635,154</u>	<u>259,726</u>	<u>16,218</u>	<u>911,098</u>

City of Faulkton  
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis –  
Governmental Funds  
Year Ended December 31, 2023

	General Fund	2nd Penny Fund	Gross Receipts Fund	Total Governmental Funds
Expenditures				
410 General government				
411 Legislative	14,901	-	-	14,901
412 Executive	8,795	-	-	8,795
413 Elections	334	-	-	334
414 Financial administration	83,033	-	-	83,033
419 Other	25,323	-	-	25,323
Total general government	<u>132,386</u>	<u>-</u>	<u>-</u>	<u>132,386</u>
420 Public safety				
421 Police	46,229	-	-	46,229
422 Fire	17,595	-	-	17,595
Total public safety	<u>63,824</u>	<u>-</u>	<u>-</u>	<u>63,824</u>
430 Public works				
431 Highways and streets	316,665	100,000	-	416,665
432 Sanitation	15,900	-	-	15,900
435 Airport	8,096	42,662	-	50,758
437 Cemeteries	4,000	-	-	4,000
Total public works	<u>344,661</u>	<u>142,662</u>	<u>-</u>	<u>487,323</u>
440 Health and welfare				
441 Health	14,350	-	-	14,350
Total health and welfare	<u>14,350</u>	<u>-</u>	<u>-</u>	<u>14,350</u>
450 Culture and recreation				
451 Recreation	98,492	125,000	-	223,492
452 Parks	11,342	9,362	-	20,704
456 Auditorium	2,878	-	-	2,878
Total culture and recreation	<u>112,712</u>	<u>134,362</u>	<u>-</u>	<u>247,074</u>
460 Conservation and development				
465 Economic development and assistance	39,719	20,000	18,209	77,928
Total conservation and development	<u>39,719</u>	<u>20,000</u>	<u>18,209</u>	<u>77,928</u>
Total expenditures	<u>707,652</u>	<u>297,024</u>	<u>18,209</u>	<u>1,022,885</u>
Other Financing Sources				
391.03 Sale of municipal property	150	-	-	150
Total other financing sources	<u>150</u>	<u>-</u>	<u>-</u>	<u>150</u>
Net Change in Fund Balance	(72,348)	(37,298)	(1,991)	(111,637)
Fund Balance - Beginning	856,039	293,414	29,881	1,179,334
Fund Balance - Ending	<u>\$ 783,691</u>	<u>\$ 256,116</u>	<u>\$ 27,890</u>	<u>\$ 1,067,697</u>

City of Faulkton  
Balance Sheet – Modified Cash Basis – Proprietary Funds  
December 31, 2024

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Current Assets			
Cash and cash equivalents	\$ 216,786	\$ 71,274	\$ 288,060
Total current assets	<u>216,786</u>	<u>71,274</u>	<u>288,060</u>
Noncurrent Assets			
Restricted cash and cash equivalents	87,301	45,065	132,366
Restricted investments	-	113,256	113,256
Total noncurrent assets	<u>87,301</u>	<u>158,321</u>	<u>245,622</u>
Total assets	<u>\$ 304,087</u>	<u>\$ 229,595</u>	<u>\$ 533,682</u>
Net Position			
Restricted			
Debt service	\$ 52,501	\$ 158,321	\$ 210,822
Equipment repairs and replacement	34,800	-	34,800
Unrestricted	<u>216,786</u>	<u>71,274</u>	<u>288,060</u>
Total net position	<u>304,087</u>	<u>229,595</u>	<u>533,682</u>
	<u>\$ 304,087</u>	<u>\$ 229,595</u>	<u>\$ 533,682</u>

City of Faulkton  
Balance Sheet – Modified Cash Basis – Proprietary Funds  
December 31, 2023

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Current Assets			
Cash and cash equivalents	\$ 191,471	\$ 105,441	\$ 296,912
Total current assets	<u>191,471</u>	<u>105,441</u>	<u>296,912</u>
Noncurrent Assets			
Restricted cash and cash equivalents	84,901	19,723	104,624
Restricted investments	-	111,854	111,854
Total noncurrent assets	<u>84,901</u>	<u>131,577</u>	<u>216,478</u>
Total assets	<u>\$ 276,372</u>	<u>\$ 237,018</u>	<u>\$ 513,390</u>
Net Position			
Restricted			
Debt service	\$ 52,501	\$ 131,577	\$ 184,078
Equipment repairs and replacement	32,400	-	32,400
Unrestricted	<u>191,471</u>	<u>105,441</u>	<u>296,912</u>
Total net position	<u>276,372</u>	<u>237,018</u>	<u>513,390</u>
	<u>\$ 276,372</u>	<u>\$ 237,018</u>	<u>\$ 513,390</u>

City of Faulkton

Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds  
Year Ended December 31, 2024

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 321,684	\$ 70,696	\$ 392,380
371 Surcharge as security for debt	-	134,072	134,072
Total operating revenue	<u>321,684</u>	<u>204,768</u>	<u>526,452</u>
Operating Expenses			
410 Personal services	46,961	45,308	92,269
420 Other current expense	52,361	19,910	72,271
426.2 Materials	141,840	-	141,840
Total operating expenses	<u>241,162</u>	<u>65,218</u>	<u>306,380</u>
Operating Income	<u>80,522</u>	<u>139,550</u>	<u>220,072</u>
Nonoperating Revenue (Expense)			
330 Operating grants	3,332	-	3,332
361 Investment earnings	649	1,725	2,374
441 Debt service (principal)	(25,770)	(81,908)	(107,678)
442 Debt service (interest)	(31,018)	(66,790)	(97,808)
Total nonoperating revenue (expense)	<u>(52,807)</u>	<u>(146,973)</u>	<u>(199,780)</u>
Change in Net Position	27,715	(7,423)	20,292
Net Position - Beginning	<u>276,372</u>	<u>237,018</u>	<u>513,390</u>
Net Position - Ending	<u>\$ 304,087</u>	<u>\$ 229,595</u>	<u>\$ 533,682</u>

City of Faulkton

Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds  
Year Ended December 31, 2023

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	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 297,980	\$ 70,535	\$ 368,515
371 Surcharge as security for debt	-	131,449	131,449
Total operating revenue	<u>297,980</u>	<u>201,984</u>	<u>499,964</u>
Operating Expenses			
410 Personal services	47,708	46,095	93,803
420 Other current expense	48,849	11,844	60,693
426.2 Materials	146,821	-	146,821
Total operating expenses	<u>243,378</u>	<u>57,939</u>	<u>301,317</u>
Operating Income	<u>54,602</u>	<u>144,045</u>	<u>198,647</u>
Nonoperating Revenue (Expense)			
330 Operating grants	8,172	-	8,172
361 Investment earnings	437	303	740
441 Debt service (principal)	(24,955)	(80,187)	(105,142)
442 Debt service (interest)	(31,833)	(68,510)	(100,343)
Total nonoperating revenue (expense)	<u>(48,179)</u>	<u>(148,394)</u>	<u>(196,573)</u>
Change in Net Position	6,423	(4,349)	2,074
Net Position - Beginning	<u>269,949</u>	<u>241,367</u>	<u>511,316</u>
Net Position - Ending	<u>\$ 276,372</u>	<u>\$ 237,018</u>	<u>\$ 513,390</u>

City of Faulkton  
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds  
Year Ended December 31, 2024

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 321,684	\$ 204,768	\$ 526,452
Payments to suppliers	(194,201)	(19,910)	(214,111)
Payments to employees	(46,961)	(45,308)	(92,269)
Net Cash from Operating Activities	<u>80,522</u>	<u>139,550</u>	<u>220,072</u>
Cash Flows from Noncapital Financing Activities			
Operating grants	<u>3,332</u>	<u>-</u>	<u>3,332</u>
Net Cash from Noncapital Financing Activities	<u>3,332</u>	<u>-</u>	<u>3,332</u>
Cash Flows used for Capital and Related Financing Activities			
Principal paid on long-term debt	(25,770)	(81,908)	(107,678)
Interest paid on long-term debt	(31,018)	(66,790)	(97,808)
Net Cash used for Capital and Related Financing Activities	<u>(56,788)</u>	<u>(148,698)</u>	<u>(205,486)</u>
Cash Flows from Investing Activities			
Cash received for interest	<u>649</u>	<u>323</u>	<u>972</u>
Net Cash from Investing Activities	<u>649</u>	<u>323</u>	<u>972</u>
Net Change in Cash and Cash Equivalents	27,715	(8,825)	18,890
Cash and Cash Equivalents - Beginning	<u>276,372</u>	<u>125,164</u>	<u>401,536</u>
Cash and Cash Equivalents - Ending	<u>\$ 304,087</u>	<u>\$ 116,339</u>	<u>\$ 420,426</u>
Cash and Cash Equivalents Consist of			
Cash and cash equivalents	\$ 216,786	\$ 71,274	\$ 288,060
Restricted cash and cash equivalents	87,301	45,065	132,366
	<u>\$ 304,087</u>	<u>\$ 116,339</u>	<u>\$ 420,426</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	<u>\$ 80,522</u>	<u>\$ 139,550</u>	<u>\$ 220,072</u>
Net Cash from Operating Activities	<u>\$ 80,522</u>	<u>\$ 139,550</u>	<u>\$ 220,072</u>

City of Faulkton  
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds  
Year Ended December 31, 2023

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 297,980	\$ 201,984	\$ 499,964
Payments to suppliers	(195,670)	(11,844)	(207,514)
Payments to employees	(47,708)	(46,095)	(93,803)
Net Cash from Operating Activities	<u>54,602</u>	<u>144,045</u>	<u>198,647</u>
Cash Flows from Noncapital Financing Activities			
Operating grants	<u>8,172</u>	<u>-</u>	<u>8,172</u>
Net Cash from Noncapital Financing Activities	<u>8,172</u>	<u>-</u>	<u>8,172</u>
Net Cash used for Capital and Related Financing Activities			
Principal paid on long-term debt	(24,955)	(80,187)	(105,142)
Interest paid on long-term debt	<u>(31,833)</u>	<u>(68,510)</u>	<u>(100,343)</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			
Cash received for interest	<u>437</u>	<u>247</u>	<u>684</u>
Net Cash from Investing Activities	<u>437</u>	<u>247</u>	<u>684</u>
Net Change in Cash and Cash Equivalents	6,423	(4,405)	2,018
Cash and Cash Equivalents - Beginning	<u>269,949</u>	<u>129,569</u>	<u>399,518</u>
Cash and Cash Equivalents - Ending	<u>\$ 276,372</u>	<u>\$ 125,164</u>	<u>\$ 401,536</u>
Cash and Cash Equivalents Consist of			
Cash and cash equivalents	\$ 191,471	\$ 105,441	\$ 296,912
Restricted cash and cash equivalents	<u>84,901</u>	<u>19,723</u>	<u>104,624</u>
	<u>\$ 276,372</u>	<u>\$ 125,164</u>	<u>\$ 401,536</u>
Reconciliation of Operating Income to Net			
Cash from Operating Activities			
Operating income	<u>\$ 54,602</u>	<u>\$ 144,045</u>	<u>\$ 198,647</u>
Net Cash from Operating Activities	<u>\$ 54,602</u>	<u>\$ 144,045</u>	<u>\$ 198,647</u>

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

As discussed further in Note 1.C., 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 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, 2024 and 2023, the City maintained their deposits in in-state financial institutions which were properly collateralized.

The actual bank balances at December 31, 2024 and 2023, are as follows:

	2024 Bank Balance	2023 Bank Balance
Insured (FDIC/NCUA)	\$ 1,645,881	\$ 457,578
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	-	1,195,544
	\$ 1,645,881	\$ 1,653,122

The City's carrying amount of deposits at December 31, 2024 and 2023, are as follows:

	2024	2023
Cash and cash equivalents	\$ 1,460,522	\$ 1,373,509
Investments	210,180	207,578
	\$ 1,670,702	\$ 1,581,087

**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, 2024 and 2023, 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, 2024 and 2023, was as follows:

<u>Purpose</u>	<u>Restricted By</u>	<u>2024</u>	<u>2023</u>
2nd Penny Sales Tax Fund	State Law	\$ 351,253	\$ 256,116
Gross Receipts Fund	State Law	29,661	27,890
Water Fund			
Debt service	Covenants	52,501	52,501
Equipment repairs and replacement	Covenants	34,800	32,400
Sewer Fund			
Debt service	Covenants	158,321	131,577

**Note 5 - Retirement Plan**

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined-benefit plan with several defined contribution plan-type provisions and is 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. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, 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 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

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

### **Contributions**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6% of salary; Class B judicial members, 9% of salary; and Class B public safety members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the years ended December 31, 2024, 2023 and 2022, were \$9,834, \$10,484 and \$9,860, respectively, equal to the required contributions each year.

**Pension Liability (Asset)**

At June 30, 2024 and 2023, SDRS is 100.00% and 100.10% 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, 2024 and 2023, and disclosed by the City of Faulkton as of December 31, 2024 and 2023, are as follows:

	2024	2023
Proportionate share of net position restricted for pension benefits	\$ 921,203	\$ 995,076
Less proportionate share of total pension liability	921,453	995,746
Proportionate share of net pension liability (asset)	\$ (250)	\$ (670)

At December 31, 2024 and 2023, the City disclosed a liability (asset) of (\$250) and (\$670), respectively, for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2024 and 2023, 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, 2024, the City’s proportion was 0.006175%, which is a decrease of 0.000692% from its proportion measured as of June 30, 2023. At June 30, 2023, the City’s proportion was 0.006867%, which is an increase of 0.000133% from its proportion measured as of June 30, 2022. 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, 2024, 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	1.71%

**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, 2024, 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, 2024, (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	56.3 %	3.6 %
Investment Grade Debt	22.8	2.3
High Yield Debt	7.0	2.8
Real Estate	12.0	4.0
Cash	1.9	0.8
	100.0 %	

### 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, 2024, 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)	\$ 127,017	\$ (250)	\$ (104,394)

**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, 2024, there was one series of conduit bonds outstanding with an unpaid principal amount of approximately \$4.83 million.

**Note 7 - Significant Contingencies – Litigation**

At December 31, 2024, 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, 2024 and 2023, 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, 2024 and 2023, no claims for unemployment benefits were paid. At December 31, 2024, no claims had been filed for unemployment and none are anticipated in the next fiscal year.

### **Note 9 - Violations of Finance-Related Legal Provisions**

South Dakota Codified Law prohibits cities from expending amounts in excess of appropriations at the department level. For the year ended December 31, 2023, the City expended amounts in excess of appropriations within the General Fund, Health and Welfare – Health department in the amount of \$5,950 and within the General Fund, Conservation and Development – Economic Development and Assistance department in the amount of \$28,719.



Supplementary Information  
December 31, 2024 and 2023  
**City of Faulkton**

City of Faulkton  
Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions  
December 31, 2024 and 2023

**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	6/30/2024	0.0062%	\$ (250)	\$ 168,369	-0.1%	100.00%
SDRS	6/30/2023	0.0069%	(670)	172,688	-0.4%	100.10%
SDRS	6/30/2022	0.0067%	(637)	157,849	-0.4%	100.10%
SDRS	6/30/2021	0.0066%	(50,568)	149,924	-33.7%	105.52%
SDRS	6/30/2020	0.0067%	(293)	147,900	-0.2%	100.04%
SDRS	6/30/2019	0.0075%	(798)	160,117	-0.5%	100.09%
SDRS	6/30/2018	0.0072%	(167)	148,733	-0.1%	100.02%
SDRS	6/30/2017	0.0072%	(653)	146,200	-0.4%	100.10%
SDRS	6/30/2016	0.0077%	25,897	145,783	17.8%	96.89%
SDRS	6/30/2015	0.0075%	(31,617)	136,100	-23.2%	104.10%

**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	12/31/2024	\$ 9,834	\$ 9,834	\$ -	\$ 163,906	6.0%
SDRS	12/31/2023	10,484	10,484	-	174,726	6.0%
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%

City of Faulkton  
Schedule of Changes in Long-Term Debt  
Years Ended December 31, 2024 and 2023

Indebtedness	Long-Term Debt 1/1/24	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/24
Enterprise Long-Term Debt				
2010 Rural Development loan	\$ 890,352	\$ -	\$ 22,469	\$ 867,883
2017 Rural Development loan	2,664,139	-	61,196	2,602,943
State Revolving Fund loan				
Drinking Water 2011	81,749	-	3,301	78,448
Clean Water 2014	643,334	-	20,712	622,622
	<u>\$ 4,279,574</u>	<u>\$ -</u>	<u>\$ 107,678</u>	<u>\$ 4,171,896</u>
Indebtedness	Long-Term Debt 1/1/23	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/23
Enterprise Long-Term Debt				
2010 Rural Development loan	\$ 912,104	\$ -	\$ 21,752	\$ 890,352
2017 Rural Development loan	2,724,274	-	60,135	2,664,139
State Revolving Fund loan				
Drinking Water 2011	84,952	-	3,203	81,749
Clean Water 2014	663,386	-	20,052	643,334
	<u>\$ 4,384,716</u>	<u>\$ -</u>	<u>\$ 105,142</u>	<u>\$ 4,279,574</u>

City of Faulkton  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2024

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
310 Taxes				
311 General property taxes	\$ 267,100	\$ 267,100	\$ 265,640	\$ (1,460)
313 General sales and use taxes	190,000	190,000	219,280	29,280
319 Penalties and interest on delinquent taxes	500	500	413	(87)
Total taxes	<u>457,600</u>	<u>457,600</u>	<u>485,333</u>	<u>27,733</u>
320 Licenses and permits	<u>12,200</u>	<u>12,200</u>	<u>13,853</u>	<u>1,653</u>
330 Intergovernmental revenue				
334 State grants	3,000	3,000	3,500	500
335 State shared revenue				
335.01 Bank franchise tax	1,000	1,000	1,531	531
335.03 Liquor tax reversion	4,500	4,500	5,649	1,149
335.04 Motor vehicle licenses (5%)	14,000	14,000	19,744	5,744
335.08 Local government highway and bridge fund	35,000	35,000	39,334	4,334
335.20 Other	1,000	1,000	3,120	2,120
338 County shared revenue				
338.01 County road tax (25%)	2,400	2,400	2,422	22
338.99 Other	-	-	100	100
Total intergovernmental revenue	<u>60,900</u>	<u>60,900</u>	<u>75,400</u>	<u>14,500</u>
340 Charges for goods and services				
344 Sanitation	2,500	2,500	3,617	1,117
346 Culture and recreation	18,500	18,500	23,179	4,679
Total charges for goods and services	<u>21,000</u>	<u>21,000</u>	<u>26,796</u>	<u>5,796</u>
350 Fines and forfeits				
351 Court fines and costs	-	-	3,875	3,875
352 Other fines and forfeits	-	-	25	25
Total fines and forfeits	<u>-</u>	<u>-</u>	<u>3,900</u>	<u>3,900</u>
360 Miscellaneous revenue				
361 Investment earnings	-	-	2,978	2,978
362 Rentals	6,200	6,200	5,310	(890)
367 Contributions and donations from private sources	-	-	315	315
369 Other	-	-	7,007	7,007
Total miscellaneous revenue	<u>6,200</u>	<u>6,200</u>	<u>15,610</u>	<u>9,410</u>
Total revenues	<u>557,900</u>	<u>557,900</u>	<u>620,892</u>	<u>62,992</u>

City of Faulkton  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2024

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
410 General government				
411 Legislative	20,448	20,448	13,736	6,712
411.5 Contingency	30,000	30,000		
Amount transferred	-	(29,256)	-	744
412 Executive	9,762	9,762	8,369	1,393
413 Elections	2,000	2,000	-	2,000
414 Financial administration	100,130	111,630	100,738	10,892
419 Other	30,000	30,000	25,150	4,850
Total general government	<u>192,340</u>	<u>174,584</u>	<u>147,993</u>	<u>26,591</u>
420 Public safety				
421 Police	46,229	46,229	46,229	-
422 Fire	18,500	18,500	13,736	4,764
Total public safety	<u>64,729</u>	<u>64,729</u>	<u>59,965</u>	<u>4,764</u>
430 Public works				
431 Highways and streets	265,340	269,063	262,468	6,595
432 Sanitation	17,515	17,515	13,731	3,784
435 Airport	11,300	11,937	11,937	-
437 Cemeteries	4,000	4,000	4,000	-
Total public works	<u>298,155</u>	<u>302,515</u>	<u>292,136</u>	<u>10,379</u>
440 Health and welfare				
441 Health	8,400	11,900	11,257	643
Total health and welfare	<u>8,400</u>	<u>11,900</u>	<u>11,257</u>	<u>643</u>
450 Culture and recreation				
451 Recreation	109,175	127,368	95,125	32,243
452 Parks	14,433	15,415	15,293	122
Total culture and recreation	<u>123,608</u>	<u>142,783</u>	<u>110,418</u>	<u>32,365</u>
460 Conservation and development				
465 Economic development and assistance	15,000	27,414	27,414	-
Total conservation and development	<u>15,000</u>	<u>27,414</u>	<u>27,414</u>	<u>-</u>
Total expenditures	<u>702,232</u>	<u>723,925</u>	<u>649,183</u>	<u>74,742</u>
<b>Other Financing Sources</b>				
391.03 Sale of municipal property	-	-	706	706
Total other financing sources	<u>-</u>	<u>-</u>	<u>706</u>	<u>706</u>
Excess of Revenue over (under) Expenditures	(144,332)	(166,025)	(27,585)	138,440
Fund Balance - Beginning	<u>783,691</u>	<u>783,691</u>	<u>783,691</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 639,359</u>	<u>\$ 617,666</u>	<u>\$ 756,106</u>	<u>\$ 138,440</u>

City of Faulkton  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
310 Taxes				
311 General property taxes	\$ 255,112	\$ 255,112	\$ 256,298	\$ 1,186
313 General sales and use taxes	180,000	180,000	217,164	37,164
319 Penalties and interest on delinquent taxes	500	500	545	45
Total taxes	<u>435,612</u>	<u>435,612</u>	<u>474,007</u>	<u>38,395</u>
320 Licenses and permits	<u>10,200</u>	<u>10,200</u>	<u>14,494</u>	<u>4,294</u>
330 Intergovernmental revenue				
331 Federal grants	-	-	6,467	6,467
334 State grants	3,000	3,000	31,841	28,841
335 State shared revenue				
335.01 Bank franchise tax	1,000	1,000	1,811	811
335.03 Liquor tax reversion	4,000	4,000	5,678	1,678
335.04 Motor vehicle licenses (5%)	12,000	12,000	18,214	6,214
335.08 Local government highway and bridge fund	30,000	30,000	39,836	9,836
335.20 Other	1,000	1,000	-	(1,000)
338 County shared revenue				
338.01 County road tax (25%)	2,400	2,400	2,422	22
Total intergovernmental revenue	<u>53,400</u>	<u>53,400</u>	<u>106,269</u>	<u>52,869</u>
340 Charges for goods and services				
344 Sanitation	2,000	2,000	3,170	1,170
346 Culture and recreation	16,000	16,000	23,792	7,792
Total charges for goods and services	<u>18,000</u>	<u>18,000</u>	<u>26,962</u>	<u>8,962</u>
350 Fines and forfeits				
351 Court fines and costs	-	-	3,200	3,200
Total fines and forfeits	<u>-</u>	<u>-</u>	<u>3,200</u>	<u>3,200</u>
360 Miscellaneous revenue				
361 Investment earnings	-	-	1,439	1,439
362 Rentals	6,450	6,450	7,366	916
369 Other	-	-	1,417	1,417
Total miscellaneous revenue	<u>6,450</u>	<u>6,450</u>	<u>10,222</u>	<u>3,772</u>
Total revenues	<u>523,662</u>	<u>523,662</u>	<u>635,154</u>	<u>111,492</u>

City of Faulkton  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
410 General government				
411 Legislative	20,448	20,448	14,901	5,547
411.5 Contingency	20,000	20,000		
Amount transferred	-	(12,220)	-	7,780
412 Executive	9,762	9,762	8,795	967
413 Elections	2,000	2,000	334	1,666
414 Financial administration	98,994	98,994	83,033	15,961
419 Other	27,500	27,500	25,323	2,177
Total general government	<u>178,704</u>	<u>166,484</u>	<u>132,386</u>	<u>34,098</u>
420 Public safety				
421 Police	46,229	46,229	46,229	-
422 Fire	15,000	17,595	17,595	-
Total public safety	<u>61,229</u>	<u>63,824</u>	<u>63,824</u>	<u>-</u>
430 Public works				
431 Highways and streets	301,168	321,156	316,665	4,491
432 Sanitation	17,515	17,515	15,900	1,615
435 Airport	11,300	11,300	8,096	3,204
437 Cemeteries	4,000	4,000	4,000	-
Total public works	<u>333,983</u>	<u>353,971</u>	<u>344,661</u>	<u>9,310</u>
440 Health and welfare				
441 Health	8,400	8,400	14,350	(5,950)
Total health and welfare	<u>8,400</u>	<u>8,400</u>	<u>14,350</u>	<u>(5,950)</u>
450 Culture and recreation				
451 Recreation	93,269	98,506	98,492	14
452 Parks	13,356	13,356	11,342	2,014
456 Auditorium	18,500	18,500	2,878	15,622
Total culture and recreation	<u>125,125</u>	<u>130,362</u>	<u>112,712</u>	<u>17,650</u>
460 Conservation and development				
465 Economic development and assistance	11,000	11,000	39,719	(28,719)
Total conservation and development	<u>11,000</u>	<u>11,000</u>	<u>39,719</u>	<u>(28,719)</u>
Total expenditures	<u>718,441</u>	<u>734,041</u>	<u>707,652</u>	<u>26,389</u>
<b>Other Financing Sources</b>				
391.03 Sale of municipal property	-	-	150	150
Total other financing sources	<u>-</u>	<u>-</u>	<u>150</u>	<u>150</u>
Excess of Revenue over (under) Expenditures	(194,779)	(210,379)	(72,348)	138,031
Fund Balance - Beginning	856,039	856,039	856,039	-
Fund Balance - Ending	<u>\$ 661,260</u>	<u>\$ 645,660</u>	<u>\$ 783,691</u>	<u>\$ 138,031</u>

City of Faulkton  
 Budgetary Comparison Schedule – 2nd Penny Fund  
 Year Ended December 31, 2024

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
310 Taxes				
313 General sales and use taxes	\$ 190,000	\$ 190,000	\$ 219,280	\$ 29,280
319 Penalties and interest on delinquent taxes	2,000	2,000	-	(2,000)
Total taxes	<u>192,000</u>	<u>192,000</u>	<u>219,280</u>	<u>27,280</u>
330 Intergovernmental revenue				
331 Federal grants	-	45,269	45,269	-
334 State grants	-	-	2,515	2,515
Total intergovernmental revenue	<u>-</u>	<u>45,269</u>	<u>47,784</u>	<u>2,515</u>
360 Miscellaneous revenue				
361 Investment earnings	-	-	10,304	10,304
Total miscellaneous revenue	<u>-</u>	<u>-</u>	<u>10,304</u>	<u>10,304</u>
Total revenues	<u>192,000</u>	<u>237,269</u>	<u>277,368</u>	<u>40,099</u>
<b>Expenditures</b>				
430 Public works				
431 Highways and streets	125,000	125,000	125,000	-
435 Airport	30,000	30,000	7,525	22,475
485 Capital outlay	150,000	150,000	-	150,000
Total public works	<u>305,000</u>	<u>305,000</u>	<u>132,525</u>	<u>172,475</u>
450 Culture and recreation				
451 Recreation	-	29,706	29,706	-
Total culture and recreation	<u>-</u>	<u>29,706</u>	<u>29,706</u>	<u>-</u>
460 Conservation and development				
465 Economic development and assistance	20,000	20,000	20,000	-
Total conservation and development	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Total expenditures	<u>325,000</u>	<u>354,706</u>	<u>182,231</u>	<u>172,475</u>
Excess of Revenue over (under) Expenditures	(133,000)	(117,437)	95,137	212,574
Fund Balance - Beginning	<u>256,116</u>	<u>256,116</u>	<u>256,116</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 123,116</u>	<u>\$ 138,679</u>	<u>\$ 351,253</u>	<u>\$ 212,574</u>

City of Faulkton  
 Budgetary Comparison Schedule – 2nd Penny Fund  
 Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
310 Taxes				
313 General sales and use taxes	\$ 180,000	\$ 180,000	\$ 217,164	\$ 37,164
319 Penalties and interest on delinquent taxes	500	500	-	(500)
Total taxes	<u>180,500</u>	<u>180,500</u>	<u>217,164</u>	<u>36,664</u>
330 Intergovernmental revenue				
331 Federal grants	-	32,741	32,741	-
Total intergovernmental revenue	<u>-</u>	<u>32,741</u>	<u>32,741</u>	<u>-</u>
360 Miscellaneous revenue				
361 Investment earnings	-	-	9,821	9,821
Total miscellaneous revenue	<u>-</u>	<u>-</u>	<u>9,821</u>	<u>9,821</u>
Total revenues	<u>180,500</u>	<u>213,241</u>	<u>259,726</u>	<u>46,485</u>
<b>Expenditures</b>				
430 Public works				
431 Highways and streets	100,000	100,000	100,000	-
435 Airport	33,000	33,000	42,662	(9,662)
485 Capital outlay	50,000	50,000	-	50,000
Total public works	<u>183,000</u>	<u>183,000</u>	<u>142,662</u>	<u>40,338</u>
450 Culture and recreation				
451 Recreation	125,000	125,000	125,000	-
452 Parks	10,000	10,000	9,362	638
Total culture and recreation	<u>135,000</u>	<u>135,000</u>	<u>134,362</u>	<u>638</u>
460 Conservation and development				
465 Economic development and assistance	30,000	30,000	20,000	10,000
Total conservation and development	<u>30,000</u>	<u>30,000</u>	<u>20,000</u>	<u>10,000</u>
Total expenditures	<u>348,000</u>	<u>348,000</u>	<u>297,024</u>	<u>50,976</u>
Excess of Revenue over (under) Expenditures	(167,500)	(134,759)	(37,298)	97,461
Fund Balance - Beginning	<u>293,414</u>	<u>293,414</u>	<u>293,414</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 125,914</u>	<u>\$ 158,655</u>	<u>\$ 256,116</u>	<u>\$ 97,461</u>

City of Faulkton  
 Budgetary Comparison Schedule – Gross Receipts Fund  
 Year Ended December 31, 2024

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
314 Gross receipts business taxes	\$ 15,000	\$ 15,000	\$ 21,945	\$ 6,945
Total taxes	15,000	15,000	21,945	6,945
360 Miscellaneous revenue				
361 Investment earnings	-	-	42	42
Total miscellaneous revenue	-	-	42	42
Total revenues	15,000	15,000	21,987	6,987
Expenditures				
460 Conservation and development				
465 Economic development and assistance	20,216	20,216	20,216	-
Total conservation and development	20,216	20,216	20,216	-
Total expenditures	20,216	20,216	20,216	-
Excess of Revenue over (under) Expenditures	(5,216)	(5,216)	1,771	6,987
Fund Balance - Beginning	27,890	27,890	27,890	-
Fund Balance - Ending	<u>\$ 22,674</u>	<u>\$ 22,674</u>	<u>\$ 29,661</u>	<u>\$ 6,987</u>

City of Faulkton  
 Budgetary Comparison Schedule – Gross Receipts Fund  
 Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
314 Gross receipts business taxes	\$ 15,000	\$ 15,000	\$ 16,218	\$ 1,218
Total taxes	15,000	15,000	16,218	1,218
Total revenues	15,000	15,000	16,218	1,218
Expenditures				
460 Conservation and development				
465 Economic development and assistance	18,209	18,209	18,209	-
Total conservation and development	18,209	18,209	18,209	-
Total expenditures	18,209	18,209	18,209	-
Excess of Revenue over (under) Expenditures	(3,209)	(3,209)	(1,991)	1,218
Fund Balance - Beginning	29,881	29,881	29,881	-
Fund Balance - Ending	\$ 26,672	\$ 26,672	\$ 27,890	\$ 1,218

**Note 1 - Budgets and Budgetary Accounting**

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

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

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

The City did not encumber any amounts at December 31, 2024 and 2023.

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, 2024, actuarial valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2023, actuarial valuation.

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

**Benefit Provision Changes**

During the 2024 legislative session, no significant SDRS benefit changes were made.

**Actuarial Method Changes**

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

**Actuarial Assumption Changes**

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% 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, 2023, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was less than 100% and the July 2024 SDRS COLA was limited to a restricted maximum of 1.91%. For the June 30, 2023, actuarial valuation, future COLAs were assumed to equal the restricted maximum COLA assumption of 1.91%.

As of June 30, 2024, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2025 SDRS COLA is limited to a restricted maximum of 1.71%. The July 2024 SDRS COLA will equal inflation, between 0% and 1.71%. For this June 30, 2024, actuarial valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.71%.

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



**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, each major fund, and the discretely presented component unit of the City of Faulkton (the City) as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 29, 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 2024-001, 2024-002, 2023-001, and 2023-002, 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and reponses as item 2023-003.

## **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.

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

Aberdeen, South Dakota  
August 29, 2025

## **2024-001 and 2023-001 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 of Faulkton 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.

## **2024-002 and 2023-002 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.

**2023-003 SDCL Violation**

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

*Condition:* In 2023, the City of Faulkton overspent the budget in the General Fund for two departments.

*Cause:* The City does not have a tracking system in place to review the General Fund budget on a monthly basis to ensure that budgeted expenses are not being overspent. The General Fund received larger grants than expected in 2023 which offset the expenditures in excess of the budgeted amounts.

*Effect:* This condition affects the City's ability to be compliant with SDCLs applicable to municipalities. With the City not fully reviewing this budget monthly or annually, overspending the budget can occur.

*Recommendation:* We recommend the City officials review the General Fund budget on quarterly basis to ensure that the budget will be proper for the fund. If a new revenue stream or larger grants are received which allow for money to be spent annually, budget amendments should be completed.

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