

CITY OF FAULKTON
FAULKTON, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE TWO YEARS ENDING DECEMBER 31, 2020
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

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CITY OF FAULKTON
FAULKTON, SOUTH DAKOTA

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FOR THE TWO YEARS ENDING DECEMBER 31, 2020

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NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
City of Faulkton
Faulkton, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund of the City of Faulkton (City), Faulk County, South Dakota, as of December 31, 2020 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

I did not audit the modified cash basis of accounting financial statements of the Faulkton Housing and Redevelopment Commission which represents 100% of the cash assets, net position, receipts and disbursements of the discretely presented component unit on the government-wide statement of net position and statement of activities.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in note 1.c; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Disclaimer of Opinion

The modified cash basis of accounting financial statements of the Faulkton Housing and Redevelopment Commission have not been audited. I was not engaged to audit these modified cash basis of accounting financial statements as part of my audit

of the City of Faulkton's modified cash basis of accounting financial statements. These financial statements are included in the City's basic financial statement as a discretely presented component unit and represents 100% of the cash assets, net position, receipts and disbursements of the City's discretely presented component unit.

Disclaimer of Opinion

The financial statements, referred to above, of the financial position and changes in financial position of the discretely presented component unit of the City of Faulkton, South Dakota as of December 31, 2020 and for the years in the biennial period then ended were not audited by me and, accordingly, I do not express an opinion on them.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of governmental activities, business-type activities, and each major fund of the City of Faulkton, South Dakota, as of December 31, 2020, and the respective changes in its financial position and, where applicable, cash flows thereof for the years in the biennial period then ended in accordance with the modified cash basis of accounting described in note 1.c to these financial statements.

Basis of Accounting

I draw attention to note 1.c of these financial statements, which describes the basis of accounting. These 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. My opinion is not modified with respect to this matter.

Other Matters - Other Supplementary Information (No Opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Faulkton's financial statements.

The management's discussion and analysis (page 4 to 9), budgetary comparison schedules (page 32 to 37), pension schedules (page 40 and 41) listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

I have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the formation and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on this information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Other Supplementary Information (Opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Faulkton's financial statements.

The schedule of changes in long-term debt (page 38) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

The schedule of changes in long-term debt is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the modified cash basis of accounting financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In my opinion, the schedule of changes in long-term debt is fairly stated, in all material respects, in relation to the modified cash basis of accounting financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report (page 42) dated February 2, 2022 on my tests of City of Faulkton's compliance with certain provisions of laws, regulations, contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota
February 2, 2022

A handwritten signature in black ink that reads "Benjamin Elliott". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the City of Faulkton's (City) financial performance provides an overview of the City's financial activities for the two years ending December 31, 2020, within the limitations of the City's modified cash basis of accounting. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS	2020	2019
Receipts:		
Charges for goods and services	487,577	459,654
Operating grants	37,314	3,022
Capital grants, contributions	493,338	480,094
General receipts	709,398	681,930
	-----	-----
Total	1,727,627	1,624,700
	-----	-----
Disbursements:		
Governmental	1,237,020	1,161,438
Business-type	459,542	514,470
	-----	-----
Total	1,696,562	1,675,908
	-----	-----
Increase (Decrease) in Net Position	31,065	(51,208)
Net Position:		
December 31, 2018		1,391,555

December 31, 2019	1,340,347	1,340,347
	-----	=====
December 31, 2020	1,371,412	
	=====	
Governmental Funds:		
General	770,614	786,076
2nd Cent	143,889	138,585
Gross Receipts	30,361	8,432
Business-Type Funds:		
Water	171,361	129,465
Sewer	255,187	277,789
	-----	-----
Total	1,371,412	1,340,347
	=====	=====

During 2020, the City:

Received:

232,953 from property taxes
 378,889 from sales taxes
 354,457 from airport grants
 138,881 from FEMA grant
 34,352 from COVID

Paid:

377,709 for airport improvements
 130,000 for street improvements
 181,077 for storm shelter construction
 22,663 down on two water loans
 75,258 down on two sewer loans

During 2019, the City:

Received:

225,151 from property taxes
355,852 from sales taxes
464,194 from airport grants
15,131 from a DENR sewer improvement grant (BAB)

Paid:

499,172 for airport improvements
102,200 for street improvements
17,921 for pool improvements
21,939 for park improvements
7,521 for sewer improvements
21,946 down on two water loans
73,689 down on two sewer loans

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

The financial report consists of three parts: (1) management's discussion and analysis (page 4 to 9), (2) the basic financial statements (page 10 to 31) and (3) other supplementary information (page 32 to 41). The basic financial statements include two types of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on significant operations of the governmental and enterprise activities of the City.

The governmental financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the City during the two years ending of December 31, 2020 are the General, 2nd Cent, and Gros Receipts Funds.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City include the Water and Sewer Funds.

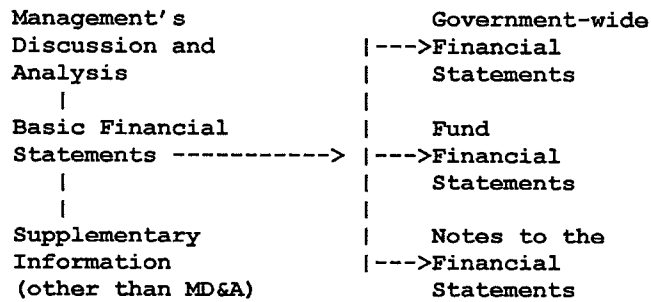
The fiduciary fund financial statements provide information about the financial status of activities in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2019 and 2020 the City had no fiduciary funds.

The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of supplementary information that presents a budgetary analysis for the general fund and major special revenue funds.

Supplementary Information:

This Management's Discussion and Analysis (page 4 to 9), the Budgetary Comparison Schedules (page 32 and 37), Schedule of Changes in Long-term Debt (page 38), and Pension Schedules (page 40 and 41) are financial information required to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

Here is an overview of the City's financial statements.



Here is a summary of the major features of these financial statement.

	Government-wide Statements	-----Fund Statements-----	
		Governmental Funds	Enterprise Funds
Scope	Entire City (including component units if any)	City activities except enterprise (water and sewer)	Activities operated like a private business (water and sewer)
Required Financial Statements	Statement of Net Position	Balance Sheet	Statement of Net Position
Required Financial Statements	Statement of Activities	Statement of Receipts Disbursements and Changes in Fund Balances	Statement of Cash Receipts, Disbursements and Changes in Net Position
Basis of Accounting	Modified Cash	Modified Cash	Modified Cash
Measurement Focus	Modified Cash	Modified Cash	Modified Cash
Types of assets & Liabilities	Only cash No liabilities	Only cash No liabilities	Only cash No liabilities
Types of Revenue and Expenditures or Expense	Cash receipts and Cash disbursements	Cash receipts Cash disbursements	Cash receipts Cash disbursements

BASIS OF ACCOUNTING

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

**GOVERNMENT-WIDE STATEMENTS
(Reporting the City as a whole)**

The government-wide statements (page 10 to 12) report information about the City as a whole using cash accounting methods similar to those used by private-sector companies. The statement of net position includes all of the City's cash. The statement of activities includes all of the year's receipts and disbursements.

The two government-wide statements report the City's net position and how it has changed. Net position is the City's petty cash, checking accounts, certificates of deposit and money market accounts. The change in these accounts is one way to measure the City's financial health. Increases or decreases in net position measures improvements or declines in the City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in the property tax base, and/or sales tax receipts generated from local businesses.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include basic services such care of streets, police protection, community center, pool, and capital projects. Property taxes, sales taxes, interest earnings finance most of these activities. Bonds and federal and state grants help pay for capital improvements.

The business-type activities account for the City's water and sewer activities. These services are funded by user fees.

FUND FINANCIAL STATEMENTS

(Reporting the City's most significant funds)

The fund financial statements (page 13 to 18) provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools used to keep track of the City's receipts and disbursements. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose, like a capital project.

The fund financial statements show information in two broad categories: governmental and enterprise (business-type).

Governmental funds: Most of the City's basic services are included in the governmental funds, which focus on (1) how cash flows in and out of that fund, and (2) cash balances left at year-end which are available for spending in the next year. The governmental funds financial statements provide detail that helps you determine whether there is more or fewer cash resources available for spending in the near future to finance the City's programs.

Enterprise fund: Services for which the City charges the customer a fee are generally reported in enterprise funds. These funds account for cash and the receipt and disbursement of cash, the same as the governmental funds. The water and sewer funds are the only enterprise funds maintained by the City.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

(Material changes for governmental activities = changes greater than \$100,000)

(Material changes for business-type activities = changes greater than \$ 50,000)

= 2020 =	Increase (Decrease)	Reason
Governmental Activities:		
Culture and recreation	120,964	Storm shelter construction.
Business-type Activities:		
Water disbursements	(53,441)	Additional WEB water purchases in 2019.
= 2019 =		
Governmental Activities:		
Capital grants	425,869	Airport project grants.
Public works	502,844	Airport project cots.
Business-type Activities:		
Cash	(66,064)	Excess disbursements.
Capital grants	(1,291,492)	Fewer sewer grants.
Sewer disbursements	(2,558,579)	Sewer project costs.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2020 the City adopted a general fund budget of \$612,321 which is an increase of \$56,992 or 10.26% from 2019. The increase was spread across several line items. There were no supplemental appropriation to the general fund budget. See page 32 for more information.

In 2019 the City adopted a general fund budget of \$555,329 which is an increase of \$64,478 or 13.14% from 2018. The increase was spread across several line items. There were no supplemental appropriation to the general fund budget. See page 33 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is reported above.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

During 2020 the City made principal payments of \$22,663 on two water loans and \$75,258 on two sewer loans.

During 2019 the City made principal payments of \$21,946 on two water loans and \$73,689 on two sewer loans.

See page 38 for more information.

The City has guaranteed 25% of three Faulkton Housing & Redevelopment Rev Bonds which had balances of \$67,148; \$199,765; and \$969,269 at December 31, 2020.

CURRENTLY KNOWN FACTS

The City is considering the purchase of land to extend airport runway for GPS approach.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Faulkton's business office at 105 8th Avenue North, Faulkton, SD 57438-0021. Phone 605.598.6515.

CITY OF FAULKTON

TABLE 1 - NET POSITION (condensed and in thousands)
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS - MODIFIED CASH BASIS
 AS OF DECEMBER 31, 2020, 2019 AND 2018

	Governmental Activities			Business-Type Activities			Total Government		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Assets:									
Cash	850,231	824,870	811,139	293,198	275,620	343,051	1,143,429	1,100,490	1,154,190
Certificates of deposit	94,633	108,223	107,098	133,350	131,634	130,267	227,983	239,857	237,365
Total assets	944,864	933,093	918,237	426,548	407,254	473,318	1,371,412	1,340,347	1,391,555
Net position:									
Restricted				237,471	198,109	96,505	237,471	198,109	96,505
Unrestricted	944,864	933,093	918,237	189,077	209,145	376,813	1,133,941	1,142,238	1,295,050
Total net position	944,864	933,093	918,237	426,548	407,254	473,318	1,371,412	1,340,347	1,391,555

TABLE 2 - CHANGES IN NET POSITION (condensed and in thousands)
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 FOR THE THREE FISCAL YEARS ENDING DECEMBER 31, 2020

	Governmental Activities			Business-Type Activities			Total Government		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Receipts:									
Program receipts:									
Charges for services	36,428	28,830	30,725	451,149	430,824	428,999	487,577	459,654	459,724
Operating grants and cont	37,314	3,022	2,867				37,314	3,022	2,867
Capital grants and contri	493,338	464,194	38,325		15,900	1,307,392	493,338	480,094	1,345,717
General receipts:									
Receipts from taxes	633,831	589,507	542,405				633,831	589,507	542,405
Receipts from state sourc	55,682	56,256	48,305				55,682	56,256	48,305
Receipts from county sour	2,422	2,422	8,060				2,422	2,422	8,060
Interest received	3,693	5,151	3,397	1,811	1,682	752	5,504	6,833	4,149
Rents and franchise	11,496	24,201	10,266				11,496	24,201	10,266
Other general receipts	463	2,711	1,966				463	2,711	1,966
Total receipts	1,274,667	1,176,294	686,316	452,960	448,406	1,737,143	1,727,627	1,624,700	2,423,459
Disbursements:									
General government	123,946	127,178	116,159				123,946	127,178	116,159
Public safety	58,649	55,707	55,896				58,649	55,707	55,896
Public works	734,214	779,609	276,765				734,214	779,609	276,765
Health and welfare	7,693	9,314	6,129				7,693	9,314	6,129
Culture and recreation	247,442	126,478	103,903				247,442	126,478	103,903
Economic development	65,076	63,152	56,000				65,076	63,152	56,000
Water				245,702	299,143	266,740	245,702	299,143	266,740
Sewer				213,840	215,327	2,773,906	213,840	215,327	2,773,906
Total disbursements	1,237,020	1,161,438	614,852	459,542	514,470	3,040,646	1,696,562	1,675,908	3,655,498
Excess of receipts over (under) disbursements	37,647	14,856	71,464	(6,582)	(66,064)	(1,303,503)	31,065	(51,208)	(1,232,039)
Loan proceeds						1,248,661	0	0	1,248,661
Transfers	(25,876)			25,876			0	0	0
Change in net position	11,771	14,856	71,464	19,294	(66,064)	(54,842)	31,065	(51,208)	16,622
Net position:									
December 31, 2017			846,773			528,160			1,374,933
December 31, 2018		918,237	918,237		473,318	473,318		1,391,555	1,391,555
December 31, 2019	933,093	933,093		407,254	407,254		1,340,347	1,340,347	
December 31, 2020	944,864			426,548			1,371,412		

CITY OF FAULKTON

STATEMENT OF NET POSITION
 MODIFIED CASH BASIS
 AS OF DECEMBER 31, 2020

	Primary Government			Unaudited Component Unit
	Governmental Activities	Business- Type Activities	Total	
ASSETS:				
Cash and cash equivalents	201,514	244,682	446,196	47,281
Money market	648,717	48,516	697,233	
Certificates of deposit	94,633	133,350	227,983	
Total assets	944,864	426,548	1,371,412	47,281
NET POSITION:				
Restricted for:				
Debt service		195,371	195,371	
Deposits		42,100	42,100	9,368
Unrestricted	944,864	189,077	1,133,941	37,913
Total net position	944,864	426,548	1,371,412	47,281

See accompanying notes.

CITY OF FAULKTON

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2020

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position			Unaudited Component Unit
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
<i>Governmental activities:</i>								
General government	123,946	14,165			(109,781)		(109,781)	
Public safety	58,649				(58,649)		(58,649)	
Public works	734,214	220		354,457	(379,537)		(379,537)	
Health and welfare	7,693		37,314		29,621		29,621	
Culture and recreation	247,442	22,043		138,881	(86,518)		(86,518)	
Economic development	65,076				(65,076)		(65,076)	
Total governmental activities	1,237,020	36,428	37,314	493,338	(669,940)	0	(669,940)	0
<i>Business-type activities:</i>								
Water	245,702	273,000				27,298	27,298	
Sewer	213,840	178,149				(35,691)	(35,691)	
Total business-type activities	459,542	451,149	0	0	0	(8,393)	(8,393)	0
Total primary government	1,696,562	487,577	37,314	493,338	(669,940)	(8,393)	(678,333)	0
<i>Component unit activity:</i>								
Faulkton Housing & Redev Commission	174,049	131,072	32,101					(10,876)
General receipts:								
Taxes:								
Property taxes					232,953		232,953	
Sales taxes					378,889		378,889	
Gross receipts					21,929		21,929	
Amusement taxes					60		60	
State shared receipts					55,682		55,682	
County shared receipts					2,422		2,422	
Interest received					3,693	1,811	5,504	107
Rents and franchise fees					11,496		11,496	
Miscellaneous receipts					463		463	
Transfer in (out)					(25,876)	25,876	0	
Total general receipts					681,711	27,687	709,398	107
Change in net position					11,771	19,294	31,065	(10,769)
Net position:								
January 1, 2020					933,093	407,254	1,340,347	58,050
December 31, 2020					944,864	426,548	1,371,412	47,281

See accompanying notes.

CITY OF FAULKTON

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2019

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position			Unaudited Component Unit
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
<i>Governmental activities:</i>								
General government	127,178	12,371			(114,807)		(114,807)	
Public safety	55,707				(55,707)		(55,707)	
Public works	779,609	280		464,194	(315,135)		(315,135)	
Health and welfare	9,314		3,022		(6,292)		(6,292)	
Culture and recreation	126,478	16,179			(110,299)		(110,299)	
Economic development	63,152				(63,152)		(63,152)	
Total governmental activities	1,161,438	28,830	3,022	464,194	(665,392)	0	(665,392)	0
<i>Business-type activities:</i>								
Water	299,143	245,962				(53,181)	(53,181)	
Sewer	215,327	184,862		15,900		(14,565)	(14,565)	
Total business-type activities	514,470	430,824	0	15,900	0	(67,746)	(67,746)	0
Total primary government	1,675,908	459,654	3,022	480,094	(665,392)	(67,746)	(733,138)	0
<i>Component unit activity:</i>								
Faulkton Housing & Redev Commission	161,656	119,584	37,840					(4,232)
General receipts:								
Taxes:								
Property taxes					225,151		225,151	
Sales taxes					355,852		355,852	
Gross receipts					8,432		8,432	
Amusement taxes					72		72	
State shared receipts					56,256		56,256	
County shared receipts					2,422		2,422	
Interest received					5,151	1,682	6,833	
Rents and franchise fees					24,201		24,201	
Miscellaneous receipts					2,711		2,711	
Transfer in (out)					0		0	
Total general receipts					680,248	1,682	681,930	0
Change in net position					14,856	(66,064)	(51,208)	(4,232)
Net position:								
January 1, 2019					918,237	473,318	1,391,555	62,282
December 31, 2019					933,093	407,254	1,340,347	58,050

See accompanying notes.

CITY OF FAULKTON

BALANCE SHEET -- MODIFIED CASH BASIS
 ALL GOVERNMENTAL FUNDS
 AS OF DECEMBER 31, 2020

	General Fund	2nd cent Fund	Gross Receipts Fund	Total
	-----	-----	-----	-----
ASSETS:				
Cash and cash equivalents	201,514			201,514
Interest bearing accounts	474,467	143,889	30,361	648,717
Certificates of deposit	94,633			94,633
	-----	-----	-----	-----
Total assets	<u>770,614</u>	<u>143,889</u>	<u>30,361</u>	<u>944,864</u>
FUND BALANCES:				
Nonspendable				0
Restricted				0
Committed		143,889	30,361	174,250
Assigned - Key deposit	2,900			2,900
Assigned - Capital projects	33,061			33,061
Unassigned	734,653			734,653
	-----	-----	-----	-----
Total fund balances	<u>770,614</u>	<u>143,889</u>	<u>30,361</u>	<u>944,864 *</u>

* Equals net position on
 statement of net position

See accompanying notes.

CITY OF FAULKTON
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
BALANCES -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS
FOR THE TWO YEARS ENDING DECEMBER 31, 2020

	General Fund	2nd Cent Fund	Gross Receipts Fund	==2020== Total	General Fund	2nd Cent Fund	Gross Receipts Fund	==2019== Total
Receipts:								
Local sources:								
Taxes:								
Ad valorem taxes	232,953			232,953	225,151			225,151
General sales and use taxes	189,444	189,444		378,888	177,926	177,926		355,852
Gros receipts			21,929	21,929			8,432	8,432
Amusement taxes	60			60	72			72
Licenses and permits:	12,440			12,440	11,796			11,796
Intergovernmental:								
Federal shared receipts:								
Grant - Airport		335,802		335,802		431,071		431,071
Grant - FEMA		138,881		138,881				0
Grant - COVID	34,352			34,352				0
State shared revenue:								
State grant - airport		18,656		18,656		33,123		33,123
State grant - mosquito	2,962			2,962	3,022			3,022
Bank franchise tax	1,152			1,152	768			768
Liquor tax revision	5,094			5,094	4,797			4,797
Motor vehicle licenses (5%)	16,264			16,264	13,626			13,626
Highway and bridge	29,830			29,830	35,115			35,115
Other	3,342			3,342	1,950			1,950
County shared revenue: road t	2,422			2,422	2,422			2,422
Charges for goods and services:								
Highway and streets				0	80			80
Solid waste	220			220	200			200
Recreation - pool	13,750			13,750	14,030			14,030
Recreation - ball park	7,000			7,000				0
Recreation - camping	657			657	1,275			1,275
Recreation - carousel	636			636	874			874
Fines and forfeits:	1,725			1,725	575			575
Miscellaneous:								
Interest received	1,511	1,308		2,819	1,385	3,624		5,009
Dividends	874			874	142			142
Rents and cable franchise	11,496			11,496	24,201			24,201
Other	463			463	2,711			2,711
Total receipts	568,647	684,091	21,929	1,274,667	522,118	645,744	8,432	1,176,294
Disbursements:								
Current:								
General government:								
Mayor and Council	22,692			22,692	20,847			20,847
Elections	18			18	26			26
Financial administration	71,592			71,592	79,028			79,028
Other	23,620			23,620	27,277			27,277
Public safety:								
Police	46,229			46,229	46,229			46,229
Fire	12,420			12,420	9,478			9,478
Public works:								
Highways and streets	201,254			201,254	150,033			150,033
Solid waste	13,196			13,196	12,856			12,856
Airport	7,094			7,094	7,761			7,761
Cemetery	4,000			4,000	4,000			4,000
Health and welfare:								
West Nile	7,693			7,693	9,314			9,314
Culture and recreation:								
Parks	5,212			5,212	5,405			5,405
Park lights and camping	1,115			1,115	724			724
Ball Park	11,879			11,879	14,405			14,405
Pool	37,166			37,166	40,387			40,387
Community Center	5,344			5,344	16,303			16,303
Senior citizens	750			750	750			750
Carousel	4,187			4,187	4,307			4,307
Conservation and development:								
Economic development	12,975	52,101		65,076	5,312	57,840		63,152
Capital outlay	6,736	689,747		696,483	4,337	644,819		649,156
Total disbursements	495,172	741,848	0	1,237,020	458,779	702,659	0	1,161,438
Excess of receipts over (under) disbursements	73,475	(57,757)	21,929	37,647	63,339	(56,915)	8,432	14,856
Other financing sources (uses):								
Transfer in (out)	(88,937)	63,061		(25,876)	79,905	(79,905)		0
Net change in fund balance (**)	(15,462)	5,304	21,929	11,771	143,244	(136,820)	8,432	14,856
Fund balance:								
January 1, 2018					642,832	275,405	0	918,237
December 31, 2019	786,076	138,585	8,432	933,093	786,076	138,585	8,432	933,093
December 31, 2020	770,614	143,889	30,361	944,864				

** Equals change in net position on
Statement of Activities
See accompanying notes.

CITY OF FAULKTON

STATEMENT OF NET POSITION
 MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 AS OF DECEMBER 31, 2020

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
ASSETS			
Cash and cash equivalent	100,076	144,606	244,682
Money market	48,516		48,516
Certificates of deposit	22,769	110,581	133,350
	-----	-----	-----
Total assets	171,361	255,187	426,548
	=====	=====	=====
NET POSITION			
Restricted - debt service	77,701	117,670	195,371
Restricted - meter deposits	42,100		42,100
Unrestricted	51,560	137,517	189,077
	-----	-----	-----
Total net position	171,361	255,187	426,548
	=====	=====	=====

See accompanying notes.

CITY OF FAULKTON

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN NET POSITION -- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE TWO YEARS ENDING DECEMBER 31, 2020

	Water Fund	Sewer Fund	== 2020 == Total	Water Fund	Sewer Fund	== 2019 == Total
	-----	-----	-----	-----	-----	-----
Operating receipts:						
Charges for goods and services	262,598	178,149	440,747	236,325	184,862	421,187
Total operating receipts	262,598	178,149	440,747	236,325	184,862	421,187
Operating disbursements:						
Personal services	48,383	46,841	95,224	49,608	48,311	97,919
Other current services	30,086	18,302	48,388	56,814	10,798	67,612
Cost of goods sold	109,588		109,588	135,932		135,932
Capital improvements	857		857		7,521	7,521
Total operating disbursements	188,914	65,143	254,057	242,354	66,630	308,984
Excess operating receipts (disbursements)	73,684	113,006	186,690	(6,029)	118,232	112,203
Nonoperating receipts (disbursements):						
Interest received	351	1,460	1,811	434	1,248	1,682
BB refundable credit	10,402		10,402	9,637		9,637
Rural development grant (BAB)			0		15,132	15,132
State grant - DENR			0		768	768
Loan pymts - principal	(22,663)	(75,258)	(97,921)	(21,946)	(73,689)	(95,635)
- interest	(34,125)	(73,439)	(107,564)	(34,843)	(75,008)	(109,851)
Total nonoperating receipts (disbursements)	(46,035)	(147,237)	(193,272)	(46,718)	(131,549)	(178,267)
Income (loss) before transfers	27,649	(34,231)	(6,582)	(52,747)	(13,317)	(66,064)
Transfer in (out)	14,247	11,629	25,876			0
Change in net position	41,896	(22,602)	19,294	(52,747)	(13,317)	(66,064)
Net position:						
January 1, 2019				182,212	291,106	473,318
December 31, 2019	129,465	277,789	407,254	129,465	277,789	407,254
December 31, 2020	171,361	255,187	426,548			

See accompanying notes.

CITY OF FAULKTON

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE TWO YEARS ENDING DECEMBER 31, 2020

	Water Fund	Sewer Fund	== 2020 == Total	Water Fund	Sewer Fund	== 2019 == Total
	-----	-----	-----	-----	-----	-----
Cash flows from:						
Operating activities:						
Receipts from customers	262,598	178,149	440,747	236,325	184,862	421,187
Payments to employees	(48,383)	(46,841)	(95,224)	(49,608)	(48,311)	(97,919)
Payments to suppliers	(139,674)	(18,302)	(157,976)	(192,746)	(10,798)	(203,544)
Capital improvements	(857)		(857)	.	(7,521)	(7,521)
Net cash provided (used) by operating activities	73,684	113,006	186,690	(6,029)	118,232	112,203
Noncapital financing activities:						
BB refundable credit	10,402		10,402	9,637		9,637
Transfers in (out)	14,247	11,629	25,876			0
Capital financing activities:						
RD grant (BAB)			0		15,132	15,132
State grant - DENR			0		768	768
Loan pymts - principal	(22,663)	(75,258)	(97,921)	(21,946)	(73,689)	(95,635)
- interest	(34,125)	(73,439)	(107,564)	(34,843)	(75,008)	(109,851)
Investing activities:						
Interest received	351	1,460	1,811	434	1,248	1,682
Less certificate of deposit interest	(293)	(1,423)	(1,716)	(233)	(1,134)	(1,367)
Net increase (decrease) in cash and cash equivalents	41,603	(24,025)	17,578	(52,980)	(14,451)	(67,431)
Cash and cash equivalents:						
January 1, 2019				159,969	183,082	343,051
December 31, 2019	106,989	168,631	275,620	106,989	168,631	275,620
December 31, 2020	148,592	144,606	293,198			
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	73,684	113,006	186,690	(6,029)	118,232	112,203
Net cash provided (used) by operating activities	73,684	113,006	186,690	(6,029)	118,232	112,203
Noncash investing, capital and financing activities: None						
See accompanying notes.						

CITY OF FAULKTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the City of Faulkton's (City) Governing Board.

The City's officials at December 31, 2020 are:

Mayor:	Finance Officer:
Slade Roseland	Emily Bauer
Governing Board:	Attorney:
Steve Wanner, President	Vaughn P. Beck
Linda Bartholomew	
Sheilah Fischer	
Chris Geiger	
Dave Hadrick	
Mark Toennies	

The City's financial reporting entity is composed of the following:

Financial Reporting Entity:
Primary Government: - The City of Faulkton
Component Unit: - Faulkton Housing and Redevelopment Commission

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Faulkton consists of (1) the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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 (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the Faulkton Housing and Redevelopment Commission (Commission) is a component unit of the City of Faulkton and represents 100% of the balances and activity of the discretely presented component unit column of these financial statements.

The Commission is organized to provide housing by building and renting out two 4-plex housing units and one 8-plex unit. The City has guaranteed 25% of three Essential Function Housing Development Bonds issued by the Commission for these units. At December 31, 2020 the balances of the three bonds were \$104,511; \$220,437; and \$1,010,945. The books of the Commission are available at the Faulkton City Hall. The Commission is established under SDCL 11-7-7.

b. Basis of Presentation:

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Cash Activities. These statements display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds (if any). 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 good and services.

The Statement of Net Position reports all cash assets. Net position is displayed in two components: restricted (distinguishing between major categories of restrictions) and unrestricted.

The Statement of Activities presents a comparison between direct disbursements and program receipts for each function of the City's governmental activities and for each segment of City's business-type activities. Direct disbursements are associated with a specific program or function and are clearly identifiable to a particular function. Program receipts include (a) charges paid by recipients of goods and services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts that are not classified as program receipts, including all taxes and interest, are presented as general receipts.

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its cash, net position, receipts and disbursements. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

- a. Total cash, receipts or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (cash, receipts or disbursements) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The City has elected to classify all of its funds as major funds.

City funds are described below within their respective fund type:

Governmental Funds

General Fund - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always 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. The City has the following special revenue funds:

2nd Cent Sales Tax Fund - A fund established by 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. The 2nd cent sales tax fund is a major fund.

Gross Receipts (3rd Cent Sales Tax) Fund - A fund established by SDCL 10-52-8, to account for the collection of a 1% 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, including promotion and advertising of the City. The gross receipts fund is a major fund.

Enterprise Funds (Business-Type)

Enterprise Funds - Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Faulkton. The water fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the own of Faulkton. The sewer fund is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

The City of Faulkton has no fiduciary funds.

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 (disbursements) are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The City's basis of accounting is the modified cash basis of accounting, which is a basis of accounting other than US-GAAP. Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, 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 described below.

Fund Financial Statements:

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

Basis of Accounting:

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, and major fund activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of net position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are certificates of deposit (if any) whose maturity when purchased is more than 90 days.

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

If the City applied US-GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise funds and fiduciary funds (if any) would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

d. Cash and Cash Equivalents:

For purposes 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 (if any) in open-end mutual funds shares or similar investments in external investment pools, are also considered to be cash equivalents.

The City's certificate of deposit has a maturity of more than three months when purchased and are not considered a cash equivalent for the statement of cash flows.

Under the modified cash basis of accounting, investments are carried at cost.

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Program Receipts and General Receipts:

Program Receipts:

In the government-wide Statement of Activities, reported program receipts derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program receipts are classified in 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 contribution - 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 contribution - These arise from mandatory and voluntary non-exchange transactions with other government, organization, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

General Receipts:

General receipts include all receipts not specifically earmarked for a specific program. General receipts include all taxes, interest received, unrestricted receipts from federal, state, or county governments, and miscellaneous receipts not related to a program. These receipts are not restricted and can be used for the regular operation of the City.

g. Enterprise Fund Receipt Classifications:

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water and sewer services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, if any, such as grants, operating subsidies, interest received, and transfers in, result from nonexchange transactions.

h. Equity Classifications:

Government-wide financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as "Fund Balance", and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (if any) (except for agency funds, which have no fund equity) is reported as "Net Position Held in Agency Capacity."

i. Application of Net Position:

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

j. Fund Cash Balance Classification Policies and Procedures:

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

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

The City of Faulkton fund cash balance classifications are made up of:

<u>Fund Balance Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	None		0
Committed	2nd Cent Fund	Ordinance	143,889
Committed	Gross Receipts (3rd Cent)	Ordinance	30,361
Assigned	Key deposit	Resolution	2,900
Assigned	Capital projects	Resolution	33,061
Unassigned	General		734,653

			944,864

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

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

The purpose of each special revenue fund and revenue source is:

Special Revenue Fund:	Revenue Source: (see page 14)
* 2nd Cent	Sales tax
* Gross Receipts (3rd Cent)	Sales tax

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. The following are overdrafts of departmental disbursement compared to appropriations.

2020:	2nd Cent fund - Public works/Highways and streets	20,961
2019:	General fund - Health and welfare/West Nile	2,914
	2nd Cent fund - Public works/airport	455,019
	2nd Cent fund - Culture and recreation/parks	21,938

Except for the airport overdraft, which was corrected in 2020, these are not considered significant violations of a departmental expenditure compared to appropriations. In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation.

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

Except for restricted cash held by 3rd parties and bank certificates of deposit purchased for an individual fund, the City follows the practice of aggregating deposits of its 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 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. 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 FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

Actual bank balances at December 31, 2020 were as follows: Insured \$500,000, Collateralized ** \$882,021, for a total of \$1,382,021.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits at December 31, 2020 was \$1,371,412 held as follows.

Dakota Bank Faulkton (Faulkton, SD):	
Checking	\$ 446,046
Savings	697,233
Certificates of deposit	227,983

	\$ 1,371,262
Petty cash	150

	\$ 1,371,412
	=====

Certificates of deposit (if any), with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

4. INVESTMENTS AND RELATED RISKS

In general, SDCL 4-5-6 permits City money to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly or (b) repurchase agreements fully collateralized by securities described in (a) or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

During the two years ending December 31, 2020 the City had no investments.

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

Custodial Risk (Investments) - The risk that, in the event of a default by the counterparty to a transaction, the City will not be able to recover the value of an investment or collateral securities held by the counterparty.

Custodial Risk (Deposits) - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2020, the City's deposits in financial institutions were not exposed to custodial deposit risks.

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. The amount of investment in an institution is shown above.

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.

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 deposit or investment. The City's policy is to credit all income from deposits and investments to the fund making the investment.

5. LONG-TERM DEBT

A summary of changes in long-term liabilities is presented as supplementary information on page 38. The City did not have any short-term or conduit debt in 2019 or 2020.

6. FUTURE REVENUES PLEDGED TO SECURE DEBT

All water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure the Water Project Revenue Bond, Series 2009 which has a remaining balance of \$953,545 and a SRF Drinking Water loan which has a remaining balance of \$91,079 at December 31, 2020. These debts were incurred to cover the cost of water improvements as described on page 38. The bonds will mature in 2050 and the SRF loan will mature in 2042. In 2020 the debt had pledged revenue of \$74,541 and total payments of \$56,788.

All sewer fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a SRF Clean Water loan which has a balance of \$701,594 at December 31, 2020. This debt is incurred to cover the cost of sewer improvements as described on page 38. The bonds will mature in 2045. In 2020 the debt had pledged revenue (loss) of (\$6,069) [\$113,006 net revenue less surcharge revenue of \$119,075] and total payments of \$41,370.

In 2020 the sewer fund had a 2017 Rural Development loan with a balance of \$2,841,435 of debt to cover the cost of sewer improvements that is secured by a monthly sewer customer surcharge of \$24.28. In 2020 surcharge revenue was \$119,075 and principal and interest payments of \$107,328 were made on the debt.

7. WATER PURCHASE AGREEMENT

The City of Faulkton entered into an agreement with WEB Water Development Association, Inc. to provide water to the City for \$2.70 per 1,000 gallons plus an indefinite minimum monthly charge of \$2,233.00 for WEB's debt service, capital improvements and water line maintenance.

8. RESTRICTED NET POSITION

The following table shows the December 31, 2020 net position restricted for specific purposes as shown on the statement of net position

Purpose:	Restricted By:	Governmental	Business-Type
Debt service	Covenants		195,371
Meter deposits	Contract		42,100
		-----	-----
Total Restricted Net Position		0	237,471

9. PENSION PLAN

Summary of Significant Accounting Policies:

As mentioned in note 1c above, these financial statements, both government-wide and fund financial statements, are presented on a modified cash basis of accounting rather than an accrual/modified accrual basis of accounting. Consequently, these financial statements do not measure the net pension (asset) liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense (revenue), and information about the fiduciary net position of the South Dakota Retirement System (SDRS).

Plan Description:

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

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

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

Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

Members that were hired on or after July 1, 2017 are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent

joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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

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

All benefits except those on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contributions requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. 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 calendar years ending December 31, 2020, 2019, and 2018 were \$8,892, \$9,482 and \$9,179 respectively (employer's share) equal to the required contribution each year.

Pension (Assets)/Liabilities:

At June 30, 2020 SDRS is 100.04% funded and accordingly has net pension (asset). The proportionate shares of the components of the net pension (asset) of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2020 and reported by the City as of December 31, 2020 are as follows:

Proportionate share of total pension liability	\$ 828,413
Less: Proportionate share of net position restricted for pension benefits	(828,705)

Proportionate share of net pension (asset)/liability	\$ (292)
	=====

The net pension (asset)/liability was measured as of June 30, 2020 and the total pension (asset)/liability used to calculate the net pension (asset)/liability was based on a projection of the City's share of contribution to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the City's proportion was .000067389 which is a decrease of .000007915 over its proportion measured as of June 30, 2019.

Actuarial Assumptions:

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

Inflation	2.25%
Salary Increases	Graded by years of service from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.41%

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

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

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

Discount Rate:

The discount rate used to measure the total pension liability 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 employer contributions will be made at rates equal to the member rate. Based on those 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 (asset)/liability.

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

The following presents the City's proportionate share of the net pension (asset)/liability of SDRS, calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the net pension (asset)/liability would be if it were calculated using a discount rate that is 1% point lower (5.50%) or 1% point higher (7.50%) than the current rate:

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
City's proportionate share of the net pension (asset)/liability	\$113,536	\$(292)	\$(93,402)

Investments

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 (ie: 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, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%

	100.0%	

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued South Dakota Retirement System financial report.

10. PROPERTY TAX

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installment on or before the following April 30 and October 31. The county bills and collects the City's taxes and remits them to the City. Because the City is on the modified cash basis of accounting, all property taxes received in cash are considered revenue for the period in which it was collected.

The City is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the City: a) general fund \$27.00; b) bond redemption funds: Amts required by Bond Agreements; c) judgment fund (upon a judgment being made) \$10.00. State statute allows the tax rates to be raised by special election of the voters.

11. INSURANCE

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 two years ending December 31, 2020 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 this 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 a claims-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, auto liability, auto damage, and property insurance.

Effective January 1, 2018 the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

Years	1	2	3	4	5	6+
Percentage	55%	50%	40%	35%	30%	20%

All refunds shall be paid to the withdrawing member over a 5 year term.

As of December 31, 2020, the City's balance available to be refunded per the SDPAA was \$33,062, which was an increase of \$977 from December 31, 2019. The change in the amount available for refund is not reported in the current period because these financial statements are on the modified cash basis of accounting.

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.

Airport Liability Coverage:

The City has purchased airport liability coverage through a commercial insurance carrier.

Worker's 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 worker's 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 worker's compensation claims.

The City pays an annual premium, to provide worker's 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 two years ended December 31, 2020, no claims for unemployment benefits were paid and none are expected to be paid in 2021.

12. LITIGATION

At December 31, 2020, the City was not a party to litigation or pending legal action. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees through South Dakota Public Assurance Alliance. Therefore, should there be legal action, it is not expected to have a material effect on the City's financial statements.

13. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City has no material unallowed related party activity.

The City does not offer any Other Post Employment Benefits.

The city has a rubble site. It does not have a landfill with any associated closure costs or liabilities.

The City is considering the purchase of land to extend airport runway for GPS approach.

CITY OF FAULKTON

SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2020

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental: Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	230,431			232,953	2,522
Sales and use tax	160,000			189,444	29,444
Amusement tax	100			60	(40)
Licenses and permits:	10,300			12,440	2,140
Federal grants			0	34,352	34,352
State grants			0	2,962	2,962
Intergovernmental receipts:	47,400			58,104	10,704
Charges for goods and services	16,300			22,263	5,963
Fines and forfeits			0	1,725	1,725
Miscellaneous receipts:	10,500			14,344	3,844
Total receipts	475,031	0	0	568,647	93,616
Disbursements:					
General government:					
Mayor and Council	24,062	110		24,172	1,480
Contingency	20,000			20,000	20,000
Amount transferred		(16,226)		(16,226)	(16,226)
Elections	1,800			1,800	1,782
Financial administration	77,144			73,460	3,684
Other	29,906		31,353	61,259	33,483
Public safety:					
Police	76,026			46,229	29,797
Fire	11,500	920		12,420	0
Public works:					
Highways and streets	196,334	10,981		201,254	6,061
Solid waste	10,539	2,657		13,196	0
Airport	8,800			7,094	1,706
Cemetery	4,000			4,000	0
Health and welfare:					
West Nile	9,362		2,962	12,324	4,631
Culture and recreation:					
Parks	7,230			6,327	903
Ball Park	11,230	649		11,879	0
Pool	48,745			37,878	10,867
Community center	19,800			5,344	14,456
Senior citizens	750			750	0
Carousel	3,278	909		4,187	0
Conservation and development:					
Economic devel. - assistance	17,500			12,975	4,525
Total disbursements	578,006	0	34,315	495,172	117,149
Excess of receipts over (under) disbursements	(102,975)	0	(34,315)	(137,290)	210,765
Other financing sources (uses):					
Transfer (out)				0	(88,937)
Change in fund balance	(102,975)	0	(34,315)	(15,462)	121,828
Fund balance:					
January 1, 2020	786,076			786,076	0
December 31, 2020	683,101	0	(34,315)	770,614	121,828

CITY OF FAULKTON

SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2019

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental: Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	213,567		213,567	225,151	11,584
Sales and use tax	170,000		170,000	177,926	7,926
Amusement tax			0	72	72
Licenses and permits:	10,850		10,850	11,796	946
State grants			0	3,022	3,022
Intergovernmental receipts:	97,400		97,400	58,678	(38,722)
Charges for goods and services	15,150		15,150	16,459	1,309
Fines and forfeits			0	575	575
Miscellaneous receipts:	11,900		11,900	28,439	16,539
Total receipts	518,867	0	0	522,118	3,251
Disbursements:					
General government:					
Mayor and Council	24,062		24,062	20,847	3,215
Contingency	20,000		20,000		20,000
Amount transferred		(15,814)	(15,814)		(15,814)
Elections	1,500		1,500	26	1,474
Financial administration	74,312	8,000	82,312	79,028	3,284
Other	32,850		32,850	27,277	5,573
Public safety:					
Police	46,229		46,229	46,229	0
Fire	11,500		11,500	9,478	2,022
Public works:					
Highways and streets	166,149	4,057	170,206	150,033	20,173
Solid waste	15,464		15,464	12,856	2,608
Airport	7,800		7,800	7,761	39
Cemetery	4,000		4,000	4,000	0
Health and welfare:					
West Nile	6,400		6,400	9,314	(2,914)
Culture and recreation:					
Parks	56,230	175	56,405	6,129	50,276
Ball Park	12,330	2,075	14,405	14,405	0
Pool	44,663	61	44,724	44,724	0
Community center	18,000		18,000	16,303	1,697
Senior citizens	750		750	750	0
Carousel	5,090		5,090	4,307	783
Conservation and development:					
Economic devel. - assistance	8,000	1,446	9,446	5,312	4,134
Total disbursements	555,329	0	0	458,779	96,550
Excess of receipts over (under) disbursements	(36,462)	0	0	63,339	99,801
Other financing sources (uses):					
Transfer in			0	79,905	79,905
Change in fund balance	(36,462)	0	0	143,244	179,706
Fund balance:					
January 1, 2019	642,832		642,832	642,832	0
December 31, 2019	606,370	0	0	786,076	179,706

CITY OF FAULKTON

SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2020

2ND CENT SALES TAX FUND (Reserved for capital improvements)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Sales and use tax	160,000		160,000	189,444	29,444
Intergovernmental:					
Federal grant - airport	112,500		112,500	335,802	223,302
Federal grant - FEMA			0	138,881	138,881
State grant - airport	6,250		6,250	18,656	12,406
Miscellaneous receipts:					
Interest received	0		0	1,308	1,308
Total receipts	278,750	0	278,750	684,091	405,341
Disbursements:					
General government:					
Other	1,500		1,500		1,500
Public works:					
Highways and streets	80,000	30,000	110,000	130,961	(20,961)
Solid waste	12,000		12,000		12,000
Airport	133,750	354,457	488,207	377,709	110,498
Culture and recreation:					
Parks	64,000	138,881	202,881	181,077	21,804
Ball parks	5,500		5,500		5,500
Pool	36,500		36,500		36,500
Economic development	89,274		89,274	52,101	37,173
Total disbursements	422,524	523,338	945,862	741,848	204,014
Excess of receipts over (under) disbursements	(143,774)	(523,338)	(667,112)	(57,757)	609,355
Other financing sources (uses):					
Transfer in			0	63,061	63,061
Change in fund balance	(143,774)	(523,338)	(667,112)	5,304	672,416
Fund balance:					
January 1, 2020	138,585		138,585	138,585	0
December 31, 2020	(5,189)	(523,338)	(528,527)	143,889	672,416

CITY OF FAULKTON

SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2019

2ND CENT SALES TAX FUND (Reserved for capital improvements)	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Sales and use tax	170,000		170,000	177,926	7,926
Intergovernmental:					
Federal grant - airport			0	431,071	431,071
State grant - airport			0	33,123	33,123
Miscellaneous receipts:					
Interest received	0		0	3,624	3,624
Total receipts	170,000	0	170,000	645,744	475,744
Disbursements:					
Public works:					
Highways and streets	140,000		140,000	105,788	34,212
Solid waste			0		0
Airport	38,000	6,153	44,153	499,172	(455,019)
Culture and recreation:					
Parks			0	21,938	(21,938)
Ball parks			0		0
Pool		17,921	17,921	17,921	0
Economic development	79,274		79,274	57,840	21,434
Total disbursements	257,274	24,074	281,348	702,659	(421,311)
Excess of receipts over (under) disbursements	(87,274)	(24,074)	(111,348)	(56,915)	54,433
Other financing sources (uses):					
Transfer (out)			0	(79,905)	(79,905)
Change in fund balance	(87,274)	(24,074)	(111,348)	(136,820)	(25,472)
Fund balance:					
January 1, 2019	275,405		275,405	275,405	0
December 31, 2019	188,131	(24,074)	164,057	138,585	(25,472)

CITY OF FAULKTON

SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE TWO YEARS ENDING DECEMBER 31, 2020

GROSS RECEIPTS FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Gross receipts			0	21,929	21,929
Total receipts	0	0	0	21,929	21,929
Disbursements:					
Economic development			0		0
Total disbursements	0	0	0	0	0
Excess of receipts over (under) disbursements	0	0	0	21,929	21,929
Other financing sources (uses):					
None			0		0
Change in fund balance	0	0	0	21,929	21,929
Fund balance:					
January 1, 2020	8,432		8,432	8,432	0
December 31, 2020	8,432	0	8,432	30,361	21,929

GROSS RECEIPTS FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplementals	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Gross receipts			0	8,432	8,432
Total receipts	0	0	0	8,432	8,432
Disbursements:					
Economic development			0		0
Total disbursements	0	0	0	0	0
Excess of receipts over (under) disbursements	0	0	0	8,432	8,432
Other financing sources (uses):					
None			0		0
Change in fund balance	0	0	0	8,432	8,432
Fund balance:					
January 1, 2019	0		0	0	0
December 31, 2019	0	0	0	8,432	8,432

CITY OF FAULKTON

NOTES TO SUPPLEMENTARY INFORMATION - BUDGETS

NOTES TO THE BUDGETARY COMPARISON SCHEDULES FOR THE GENERAL FUND AND SPECIAL REVENUE FUNDS FOR THE TWO YEARS ENDING DECEMBER 31, 2020

1. BUDGETS AND BUDGETARY ACCOUNTING

The City of Faulkton (City) follows these procedures in establishing the budgetary data reflected in the budgetary supplementary information:

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2019 there was no supplemental budget to the general fund. During 2020 there was one supplemental budget to the general fund. During 2019 and 2020 there were supplemental budgets to the 2nd cent sales tax fund. See pages 32 to 35.
- e. Formal budgetary integration is employed as a management control device for the general fund, 2nd cent sales tax fund and the gross receipts fund.
- f. Budgets for the general fund, 2nd cent fund and gross receipts fund are not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting, and the adoption of the all budgets, is on a modified cash basis of accounting.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

The financial statements prepared in conformity with US-GAAP (within the context of the modified cash basis of accounting) present capital outlay disbursement information as a separate category of disbursements. Under the budgetary basis of accounting, capital outlay disbursements are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital outlay disbursement in the governmental funds statement of receipts, disbursements and changes in fund cash balance. However, in the budgetary supplementary information schedule, the purchase of a road grader would be reported as a disbursement in the public works function of general fund, along with all other current public works disbursements.

CITY OF FAULKTON

SCHEDULE OF CHANGES IN LONG-TERM DEBT
FOR THE TWO YEARS ENDING DECEMBER 31, 2020

	Beginning	2019	2020	Governmental	Enterprise	Principal
	12-31-18	Additions	Additions	Funds	Funds	Payments
		(Deletions)	(Deletions)	Ending	Ending	Due in
	12-31-18	(Deletions)	(Deletions)	12-31-20	12-31-20	2021
BUSINESS-TYPE - DIRECT BORROWING						
2010 Rural Development Loan:						
Original amount of \$1,141,000						
Maturing in 2050						
Interest at 3.25%						
Monthly payments of \$4,256						
Payable solely from segregated water project receipts						
Paid by the water fund	992,382	(19,103)	(19,734)		953,545	20,082
2011 SRF Drinking Water #2:						
Original amount of \$112,816						
Maturing 7-15-2042						
Interest at 3.00%						
Quarterly payments of \$1,429						
Payable solely from segregated water project receipts						
Paid by the water fund	96,851	(2,843)	(2,929)		91,079	3,018
2014 SRF Clean Water #1:						
Original amount of \$790,879						
Maturing 7-15-2045						
Interest at 3.25%						
Quarterly payments of \$10,342						
Payable solely from segregated sewer project receipts						
Paid by the sewer fund	737,407	(17,617)	(18,196)		701,594	18,795
2017 Rural Development Loan:						
Original amount of \$1,835,339						
Maturing 2037						
Interest at 1.75%						
Monthly payments of \$8,944						
Payable solely from segregated sewer surcharge receipts						
Paid by the sewer fund	2,954,569	(56,072)	(57,062)		2,841,435	57,603
Totals	4,781,209	(95,635)	(97,921)	0	4,587,653	99,498

NOTE

The City guarantees 25% of three Essential Function Housing Bonds for the Faulkton Housing & Redevelopment Commission. At December 31, 2020 the bonds have a remaining balance of \$67,148; \$199,765; and \$969,269. The City's guarantee on these bonds is \$309,045.

In 2019 the City contributed \$37,840 toward the payment of these bonds and in 2020 the City contributed \$32,101 toward the payment of these bonds.

CITY OF FAULKTON

SCHEDULE OF PAYMENTS FOR LONG-TERM DEBT
AT DECEMBER 31, 2020

	Total Payment	Principal	Interest	Balance
	-----	-----	-----	-----
2010 Rural Development Loan:				
2021	51,072	20,082	30,990	933,463
2022	51,072	20,735	30,337	912,728
2023	51,072	21,408	29,664	891,320
2024	51,072	22,104	28,968	869,216
2025	51,072	22,823	28,249	846,393
2026-2030	255,360	125,732	129,628	720,661
2031-2035	255,360	147,536	107,824	573,125
2036-2040	255,360	173,120	82,240	400,005
2041-2045	255,360	203,141	52,219	196,864
2046-2050	213,856	196,864	16,992	0
	-----	-----	-----	
Totals	1,490,656	953,545	537,111	
	=====	=====	=====	
2011 SRF Drinking Water #2:				
2021	5,716	3,018	2,698	88,061
2022	5,717	3,109	2,608	84,952
2023	5,716	3,204	2,512	81,748
2024	5,717	3,301	2,416	78,447
2025	5,716	3,401	2,315	75,046
2026-2030	28,582	18,617	9,965	56,429
2031-2035	28,582	21,618	6,964	34,811
2036-2040	28,582	25,102	3,480	9,709
2041-2042	11,433	9,709	1,724	0
	-----	-----	-----	
Totals	125,761	91,079	34,682	
	=====	=====	=====	
2014 SRF Clean Water #1:				
2021	41,369	18,795	22,574	682,799
2022	41,370	19,413	21,957	663,386
2023	41,369	20,052	21,317	643,334
2024	41,370	20,712	20,658	622,622
2025	41,369	21,393	19,976	601,229
2026-2030	206,847	117,997	88,850	483,232
2031-2035	206,847	138,727	68,120	344,505
2036-2040	206,847	163,097	43,750	181,408
2041-2045	196,504	181,408	15,096	0
	-----	-----	-----	
Totals	1,023,892	701,594	322,298	
	=====	=====	=====	
2017 Rural Development Loan:				
2021	107,328	57,603	49,725	2,783,832
2022	107,328	58,611	48,717	2,725,221
2023	107,328	59,637	47,691	2,665,584
2024	107,328	60,680	46,648	2,604,904
2025	107,328	61,742	45,586	2,543,162
2026-2030	536,640	325,301	211,339	2,217,861
2031-2035	536,640	354,779	181,861	1,863,082
2036-2040	536,640	386,928	149,712	1,476,154
2041-2045	536,640	421,990	114,650	1,054,164
2046-2050	536,640	460,229	76,411	593,935
2051-2055	536,640	501,934	34,706	92,001
2056-2057	93,611	92,001	1,610	0
	-----	-----	-----	
Totals	3,850,091	2,841,435	1,008,656	
	=====	=====	=====	

CITY OF FAULKTON
FOR THE SEVEN YEARS ENDING DECEMBER 31, 2020

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE
SOUTH DAKOTA RETIREMENT SYSTEM'S NET PENSION (ASSET) LIABILITY

SDRS Measurement Date Year Ended (1)	City's Pension Allocation Percentage	City's Proportionate Share of Net Pension (Asset) Liability	City's Covered Employee Payroll for its 6-30 Year End	City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2020	0.0067389%	(293)	147,900	(00.20%)	100.04%
June 30, 2019	0.0075304%	(798)	160,117	(00.50%)	100.09%
June 30, 2018	0.0071544%	(167)	148,733	(00.11%)	100.02%
June 30, 2017	0.0071956%	(653)	146,200	(00.45%)	100.10%
June 30, 2016	0.0076667%	25,897	145,783	17.76%	96.89%
June 30, 2015	0.0074546%	(31,617)	136,100	(23.23%)	104.10%
June 30, 2014	0.0081172%	(58,481)	141,950	(41.20%)	107.30%

(1) The amounts presented for each fiscal year were determined as of the collective net pension liability (asset) which is 6-30 of the City's current calendar year.

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF FAULKTON
FOR THE SEVEN YEARS ENDING DECEMBER 31, 2020

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS
TO THE SOUTH DAKOTA RETIREMENT SYSTEM

City's Year Ended	Contractually Required Contribution	Contributions Related to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Employee Payroll for its Calendar Year End	Contributions as a Percentage of Covered Employee Payroll
December 31, 2020	8,892	8,892	0	148,200	6.00%
December 31, 2019	9,482	9,482	0	158,033	6.00%
December 31, 2018	9,179	9,179	0	152,983	6.00%
December 31, 2017	8,783	8,783	0	146,383	6.00%
December 31, 2016	8,819	8,819	0	146,983	6.00%
December 31, 2015	8,237	8,237	0	137,283	6.00%
December 31, 2014	8,679	8,679	0	144,650	6.00%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF FAULKTON

NOTES TO SUPPLEMENTARY INFORMATION - PENSION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION (ASSET)/LIABILITY
AND SCHEDULE OF PENSION CONTRIBUTIONS FOR THE TWO YEARS ENDING DECEMBER 31, 2020

Changes of Prior Valuation:

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

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

Benefit Provision Changes:

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

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

Actuarial Assumption Changes:

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

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

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

Actuarial Method Changes:

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

REPORT ON
COMPLIANCE AND OTHER MATTERS AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board
City of Faulkton
Faulkton, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund, of the City of Faulkton (City), Faulk County, South Dakota, as of December 31, 2020 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated February 2, 2022 which was unmodified except for a disclaimer of opinion on the discretely presented component unit, which I was not engaged to audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Faulkton's financial statements are free of material misstatement, I 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of current audit findings and questioned costs as item 2020-02.

I did note minor matters involving compliance that I reported to the governing body and management of the City of Faulkton in a separate Letter of Comments dated February 2, 2022.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Faulkton's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Faulkton's internal control.

A *deficiency in internal control* exist 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City of Faulkton's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency*, is a deficiency, or 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.

My 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 were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

I did identify deficiencies in internal control, described in the accompanying schedule of current audit findings and responses that I consider to be significant deficiencies. I consider the deficiencies described in the accompanying schedule of current audit findings and responses as items 2020-01 and 2020-02 to be significant deficiencies.

I did note other matters involving internal control that I reported to the governing body and management of the City of Faulkton in a separate Letter of Comments dated February 2, 2022.

Management's Response to Findings

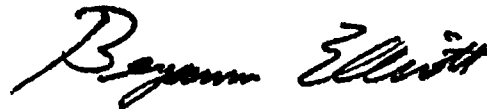
Management's responses to the findings identified in my audit are described in the accompanying schedule of current audit findings and responses. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

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

As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



February 2, 2022

CITY OF FAULKTON
DECEMBER 31, 2020
SCHEDULES OF FINDINGS AND RESPONSES

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit finding:
Not applicable

Prior Other Audit Findings:

2018-01: [Preparation of financial statement and footnotes] -- See 2020-01
2018-02: [Capital asste records] -- See 2020-02

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2020-01: Preparation of Financial Statements and Footnotes
(internal control)

Criteria:

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

Condition:

The City does not have an internal control system designed to provide for the complete preparation of the financial statements, footnotes and disclosures, including a system to identify all relevant and material adjustments necessary to ensure that financial statements are in accordance with generally accepted accounting principles.

Cause:

The City has elected not to have an internal control system designed to provide for the preparation of the financial statements and footnotes being audited. As the auditor, I was requested to draft these financial statements and related footnotes.

Effect:

This internal control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

Recommendation:

This situation is not unusual for an entity of this City's size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials:

Due to cost constraints, the City will continue to have the auditor draft the financial statements and accompanying notes to the financial statements.

Finding 2020-02: Capital Asset Records
(compliance and internal control)

Criteria:

The Municipal Accounting Manual, Section V (F), describes the "responsibility of stewardship involved in safeguarding" a city's substantial investment in capital assets. Even though your financial statements are on a cash basis, it is still important to maintain capital asset control records.

Condition:

The City's capital asset records are not up to date.

Questioned Costs:

None

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

Possible Effect:

If the City's capital asset records are not kept up to date, in time the City will lose track of the value of these items.

Recommendations:

The City's capital asset records need to be brought up to date.

Views of Responsible Officials:

The City of Faulkton's finance officer, Emily Bauer, expect to begin bringing the City's capital asset records up to date.