



Financial Statements  
December 31, 2022  
City of Milbank

Mayor ..... Pat Raffety

Governing Board ..... Roger Briggs  
Craig Weinberg  
Josh Karels  
John Weyh  
Mike Hanson  
Mindy Rogers

City Administrator ..... John Forman

Finance Officer ..... Cynthia Schumacher

Attorney ..... Mark Reedstrom

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## Independent Auditor's Report

The City Council  
City of Milbank  
Milbank, South Dakota

### Report on the Audit of the Financial Statements

#### *Adverse and Unmodified Opinions*

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

#### *Adverse Opinion on Aggregate Discretely Presented Component Unit*

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

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

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

#### *Basis for Adverse and Unmodified Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States.

Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Milbank, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and unmodified audit opinions.

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

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

***Emphasis of Matter - Basis of Accounting***

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

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules of employer's share of net pension liability (asset) and pension contributions, budgetary comparison schedules, and schedule of changes in notes and bonds payable (collectively the "supplementary information") are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, because of the significance of the matter disclosed in the Basis for Adverse and Unmodified Opinions paragraph, it is inappropriate to, and we do not, express an opinion on the supplementary information.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the listing of municipal officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2023, on our consideration of the City of Milbank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Aberdeen, South Dakota  
November 15, 2023

City of Milbank  
Statement of Net Position—Modified Cash Basis  
December 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 7,060,978	\$ 2,450,138	\$ 9,511,116
Restricted assets:			
Cash and cash equivalents	-	394,952	394,952
	<u>\$ 7,060,978</u>	<u>\$ 2,845,090</u>	<u>\$ 9,906,068</u>
<b>Net Position</b>			
Restricted for:			
Debt service	\$ -	\$ 394,952	\$ 394,952
Recreation	487,884	-	487,884
Promotion	110,823	-	110,823
Unrestricted	<u>6,462,271</u>	<u>2,450,138</u>	<u>8,912,409</u>
	<u>\$ 7,060,978</u>	<u>\$ 2,845,090</u>	<u>\$ 9,906,068</u>



City of Milbank  
Statement of Activities—Modified Cash Basis  
Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Loan Proceeds	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 441,989	\$ 96,451	\$ -	\$ -	\$ (345,538)	\$ -	\$ (345,538)
Public safety	863,064	7,043	2,793	-	(853,228)	-	(853,228)
Public works	1,037,693	172,304	150,423	37,028	(677,938)	-	(677,938)
Culture and recreation	4,259,248	475,274	-	821,328	(2,962,646)	-	(2,962,646)
Conservation and development	208,708	-	-	-	(208,708)	-	(208,708)
Debt service	515,293	-	-	-	(515,293)	-	(515,293)
Total governmental activities	<u>7,325,995</u>	<u>751,072</u>	<u>153,216</u>	<u>858,356</u>	<u>(5,563,351)</u>	<u>-</u>	<u>(5,563,351)</u>
Business-type activities:							
Water	590,007	686,316	283,715	-	-	380,024	380,024
Sewer	610,306	783,368	-	-	-	173,062	173,062
Total business-type activities	<u>1,200,313</u>	<u>1,469,684</u>	<u>283,715</u>	<u>-</u>	<u>-</u>	<u>553,086</u>	<u>553,086</u>
Total primary government	<u>\$ 8,526,308</u>	<u>\$ 2,220,756</u>	<u>\$ 436,931</u>	<u>\$ 858,356</u>	<u>(5,563,351)</u>	<u>553,086</u>	<u>(5,010,265)</u>
<b>General Revenues</b>							
Taxes:							
Property taxes					953,238	-	953,238
Sales taxes					3,560,282	-	3,560,282
State shared revenues					32,219	-	32,219
Unrestricted investment earnings					31,025	10,936	41,961
Miscellaneous revenue					56,928	990	57,918
Debt issued					5,978,500	535,000	6,513,500
Transfers					(132,450)	132,450	-
Total general revenues					<u>10,479,742</u>	<u>679,376</u>	<u>11,159,118</u>
Change in Net Position					<u>4,916,391</u>	<u>1,232,462</u>	<u>6,148,853</u>
Net Position - Beginning					<u>2,144,587</u>	<u>1,612,628</u>	<u>3,757,215</u>
Net Position - Ending					<u>\$ 7,060,978</u>	<u>\$ 2,845,090</u>	<u>\$ 9,906,068</u>

See Notes to Financial Statements

City of Milbank  
Balance Sheet—Modified Cash Basis—Governmental Funds  
December 31, 2022

	<u>General Fund</u>	<u>3rd Penny Sales Tax Fund</u>	<u>Recreation Gift Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 6,462,271	\$ 110,823	\$ 487,884	\$ 7,060,978
	<u>\$ 6,462,271</u>	<u>\$ 110,823</u>	<u>\$ 487,884</u>	<u>\$ 7,060,978</u>
<b>Fund Balances</b>				
264 Restricted for:				
Recreation	\$ -	\$ -	\$ 487,884	\$ 487,884
Promotion	-	110,823	-	110,823
267 Unassigned	6,462,271	-	-	6,462,271
	<u>\$ 6,462,271</u>	<u>\$ 110,823</u>	<u>\$ 487,884</u>	<u>\$ 7,060,978</u>

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

	General Fund	3rd Penny Sales Tax Fund	Recreation Gift Fund	Total Governmental Funds
<b>Revenues</b>				
310 Taxes				
311 General property taxes	\$ 951,876	\$ -	\$ -	\$ 951,876
313 General sales and use taxes	3,416,593	143,689	-	3,560,282
319 Penalties and interest on delinquent taxes	<u>1,362</u>	<u>-</u>	<u>-</u>	<u>1,362</u>
Total taxes	<u>4,369,831</u>	<u>143,689</u>	<u>-</u>	<u>4,513,520</u>
320 Licenses and permits	<u>78,267</u>	<u>-</u>	<u>-</u>	<u>78,267</u>
330 Intergovernmental revenue				
331 Federal grants	37,028	-	-	37,028
334 State grants	2,793	-	-	2,793
335 State shared revenue				
335.01 Bank franchise tax	7,385	-	-	7,385
335.02 Motor vehicle commercial prorated	8,404	-	-	8,404
335.03 Liquor tax reversion	24,834	-	-	24,834
335.04 Motor vehicle licenses (5%)	39,369	-	-	39,369
335.08 Local government highway and bridge fund	83,182	-	-	83,182
338 County shared revenue				
338.01 County road tax (25%)	7,665	-	-	7,665
338.02 County road and bridge tax (25%)	11,803	-	-	11,803
339 Other governmental revenues	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>7,500</u>
Total intergovernmental revenue	<u>229,963</u>	<u>-</u>	<u>-</u>	<u>229,963</u>
340 Charges for goods and services				
341 General government	4,219	-	-	4,219
342 Public safety	5,691	-	-	5,691
344 Sanitation	111,605	-	-	111,605
346 Culture and recreation	475,274	-	-	475,274
348 Cemetery	18,000	-	-	18,000
349 Other (Airport)	<u>42,699</u>	<u>-</u>	<u>-</u>	<u>42,699</u>
Total charges for good and services	<u>657,488</u>	<u>-</u>	<u>-</u>	<u>657,488</u>
350 Fines and forfeits				
351 Court fines and costs	73	-	-	73
352 Animal control fines	299	-	-	299
359 Other	<u>980</u>	<u>-</u>	<u>-</u>	<u>980</u>
Total fines and forfeits	<u>1,352</u>	<u>-</u>	<u>-</u>	<u>1,352</u>
360 Miscellaneous revenue				
361 Investment earnings	28,866	426	1,733	31,025
362 Rentals	13,965	-	-	13,965
367 Contributions and donations from private sources	79,525	-	741,803	821,328
369 Other	<u>45,428</u>	<u>-</u>	<u>-</u>	<u>45,428</u>
Total miscellaneous revenue	<u>167,784</u>	<u>426</u>	<u>743,536</u>	<u>911,746</u>
Total revenues	<u>5,504,685</u>	<u>144,115</u>	<u>743,536</u>	<u>6,392,336</u>

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

	General Fund	3rd Penny Sales Tax Fund	Recreation Gift Fund	Total Governmental Funds
Expenditures				
410 General government				
411 Legislative	48,273	-	-	48,273
413 Elections	1,088	-	-	1,088
414 Financial administration	388,877	-	-	388,877
Total general government	<u>438,238</u>	<u>-</u>	<u>-</u>	<u>438,238</u>
420 Public safety				
421 Police	610,759	-	-	610,759
422 Fire	157,498	-	-	157,498
Total public safety	<u>768,257</u>	<u>-</u>	<u>-</u>	<u>768,257</u>
430 Public works				
431 Highways and streets	515,699	-	-	515,699
432 Sanitation	35,649	-	-	35,649
435 Airport	35,462	-	-	35,462
Total public works	<u>586,810</u>	<u>-</u>	<u>-</u>	<u>586,810</u>
450 Culture and recreation				
451 Recreation	718,963	-	-	718,963
452 Parks	461,563	-	-	461,563
Total culture and recreation	<u>1,180,526</u>	<u>-</u>	<u>-</u>	<u>1,180,526</u>
460 Conservation and development				
463 Urban redevelopment and housing	67,379	-	-	67,379
465 Economic development and assistance (industrial development)	-	141,329	-	141,329
Total conservation and development	<u>67,379</u>	<u>141,329</u>	<u>-</u>	<u>208,708</u>
470 Debt service	515,293	-	-	515,293
485 Capital outlay	3,627,803	-	-	3,627,803
490 Miscellaneous				
492 Other expenditures	-	-	360	360
Total miscellaneous	<u>-</u>	<u>-</u>	<u>360</u>	<u>360</u>
Total expenditures	<u>7,184,306</u>	<u>141,329</u>	<u>360</u>	<u>7,325,995</u>
Excess of Revenue over (under) Expenditures	<u>(1,679,621)</u>	<u>2,786</u>	<u>743,176</u>	<u>(933,659)</u>
Other Financing Sources (Uses)				
391.01 Transfers in	752,246	-	-	752,246
511 Transfers out	(277,450)	-	(607,246)	(884,696)
391.04 Compensation for loss/damage to capital assets	4,000	-	-	4,000
391.2 Debt issued	5,928,500	50,000	-	5,978,500
Total other financing sources (uses)	<u>6,407,296</u>	<u>50,000</u>	<u>(607,246)</u>	<u>5,850,050</u>
Net Change in Fund Balance	4,727,675	52,786	135,930	4,916,391
Fund Balance - Beginning	1,734,596	58,037	351,954	2,144,587
Fund Balance - Ending	<u>\$ 6,462,271</u>	<u>\$ 110,823</u>	<u>\$ 487,884</u>	<u>\$ 7,060,978</u>

City of Milbank  
Statement of Net Position—Modified Cash Basis—Proprietary Funds  
December 31, 2022

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,770,278	\$ 679,860	\$ 2,450,138
Total current assets	<u>1,770,278</u>	<u>679,860</u>	<u>2,450,138</u>
Noncurrent Assets			
107.1 Restricted deposits for:			
Debt repayment	394,952	-	394,952
Total noncurrent assets	<u>394,952</u>	<u>-</u>	<u>394,952</u>
	<u>\$ 2,165,230</u>	<u>\$ 679,860</u>	<u>\$ 2,845,090</u>
Net Position			
253.20 Restricted net position for:			
Debt repayment	\$ 394,952	\$ -	\$ 394,952
253.90 Unrestricted	<u>1,770,278</u>	<u>679,860</u>	<u>2,450,138</u>
Total net position	<u>2,165,230</u>	<u>679,860</u>	<u>2,845,090</u>
	<u>\$ 2,165,230</u>	<u>\$ 679,860</u>	<u>\$ 2,845,090</u>

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

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
369 Miscellaneous	\$ 3,450	\$ 7,344	\$ 10,794
380 Charges for goods and services	424,787	776,024	1,200,811
381 Revenue dedicated to servicing debt	258,079	-	258,079
Total operating revenue	<u>686,316</u>	<u>783,368</u>	<u>1,469,684</u>
Operating Expenses			
410 Personal services	118,054	265,009	383,063
420 Other current expense	222,910	343,994	566,904
Total operating expenses	<u>340,964</u>	<u>609,003</u>	<u>949,967</u>
Operating Income	<u>345,352</u>	<u>174,365</u>	<u>519,717</u>
Nonoperating Revenue (Expense)			
330 Operating Grants	283,715	-	283,715
361 Investment earnings	8,012	2,924	10,936
362 Rental revenue	990	-	990
430 Capital assets	(37,237)	(1,303)	(38,540)
440 Debt service (principal)	(175,693)	-	(175,693)
441 Debt service (interest)	(36,113)	-	(36,113)
391.20 Long-term debt issued	535,000	-	535,000
Total nonoperating revenue (expense)	<u>578,674</u>	<u>1,621</u>	<u>580,295</u>
Income Before Transfers	924,026	175,986	1,100,012
514 Transfers to other fund	-	(145,000)	(145,000)
391.06 Transfers from other fund	277,450	-	277,450
Change in Net Position	1,201,476	30,986	1,232,462
Net Position - Beginning	<u>963,754</u>	<u>648,874</u>	<u>1,612,628</u>
Net Position - Ending	<u>\$ 2,165,230</u>	<u>\$ 679,860</u>	<u>\$ 2,845,090</u>

City of Milbank  
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2022

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from Operating Activities			
Receipt from customers	\$ 686,316	\$ 783,368	\$ 1,469,684
Payments to suppliers	(222,910)	(343,994)	(566,904)
Payments to employees	(118,054)	(265,009)	(383,063)
Net Cash from Operating Activities	<u>345,352</u>	<u>174,365</u>	<u>519,717</u>
Cash Flows from (used for) Noncapital and Related Financing Activities			
Operating Grants	283,715	-	283,715
Transfers from (to) other funds	277,450	(145,000)	132,450
Net Cash from (used for) Noncapital and Related Financing Activities	<u>561,165</u>	<u>(145,000)</u>	<u>416,165</u>
Cash Flows from (used for) Capital and Related Financing Activities			
Proceeds from capital debt	535,000	-	535,000
Purchase of capital assets	(37,237)	(1,303)	(38,540)
Principal paid on capital debt	(175,693)	-	(175,693)
Interest paid on capital debt	(36,113)	-	(36,113)
Net Cash from (used for) Capital and Related Financing Activities	<u>285,957</u>	<u>(1,303)</u>	<u>284,654</u>
Cash Flows from Investing Activities			
Rental revenue	990	-	990
Interest earnings	8,012	2,924	10,936
Net Cash from Investing Activities	<u>9,002</u>	<u>2,924</u>	<u>11,926</u>
Net Change in Cash and Cash Equivalents	1,201,476	30,986	1,232,462
Cash and Cash Equivalents - Beginning	<u>963,754</u>	<u>648,874</u>	<u>1,612,628</u>
Cash and Cash Equivalents - Ending	<u>\$ 2,165,230</u>	<u>\$ 679,860</u>	<u>\$ 2,845,090</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 1,770,278	\$ 679,860	\$ 2,450,138
Restricted deposits	394,952	-	394,952
	<u>\$ 2,165,230</u>	<u>\$ 679,860</u>	<u>\$ 2,845,090</u>
Reconciliation of Operating Income to Net Cash from:			
Operating Activities			
Operating income	\$ 345,352	\$ 174,365	\$ 519,717
Net Cash from Operating Activities	<u>\$ 345,352</u>	<u>\$ 174,365</u>	<u>\$ 519,717</u>

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

As discussed further in Note 1.C., the 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. Financial Reporting Entity**

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

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

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

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

### **B. Basis of Presentation**

#### **Government-Wide Financial Statements**

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

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



## **Fund Financial Statements**

Fund financial statements of the City are organized into funds, each of which are considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

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

The funds of the City of Milbank are described below:

### **Governmental Funds**

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

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

- **3rd Penny Sales Tax Fund** – To account for the third penny sales tax received by the City. Proceeds from third penny sales tax are restricted by South Dakota Codified Law 10-52A-2 for the promotion and advertising of the City. This is a major fund.
- **Recreation Gift Fund** – To account for contributions and donations that are legally restricted for parks and recreations purposes. This is a major fund.

### **Proprietary Funds**

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

The City reports the following enterprise funds:

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

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

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

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

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

#### **Measurement Focus**

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 defined below.

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

#### **Basis of Accounting**

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

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

#### **D. Deposits and Investments**

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

#### **E. Interfund Eliminations and Reclassifications**

##### **Government-Wide Financial Statements**

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

#### **F. Capital Assets**

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

#### **G. Long-Term Liabilities**

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

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

## H. Program Revenues

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

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

## I. Proprietary Funds Revenue and Expense Classifications

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

## J. Cash and Cash Equivalents

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

## K. Equity Classifications

### Government-Wide Statements

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

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

## **Fund Financial Statements**

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

### **L. Application of Net Position and Fund Balance**

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

### **M. Fund Balance Classification Policies and Procedures**

The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance – Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint. The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.
- Assigned Fund Balance – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).
- Unassigned Fund Balance – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

**Note 2 - Deposits and Investments**

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

**Deposits**

The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than “AA,” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2022, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

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

	Bank Balance
Insured (FDIC/NCUA)	\$ 9,879,936
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	238,064
	\$ 10,118,000

The City’s carrying amount of deposits at December 31, 2022, is as follows:

Cash and cash equivalents	\$ 9,906,068
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## Investments

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

As of December 31, 2022, the City did not hold any investments as defined by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

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

### Note 3 - Property Taxes

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

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

### Note 4 - Restricted Net Position

The following table shows the net position restricted for other purposes as shown on the statement of net position:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
3rd Penny Sales Tax Fund	State Law	\$ 110,823
Recreation Gift Fund	State Law	487,884
Sewer Fund	Contractual Agreement	394,952

## **Note 5 - Risk Management**

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

### **Employee Health Insurance**

The City purchases health insurance for its employees from a commercial insurance carrier. 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, official's liability, cyber liability, automobile liability, law enforcement liability, physical damage, property, and equipment.

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

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



### **Workers' Compensation**

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

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

### **Unemployment Benefits**

The City has elected to be self-insured and to retain all risk for liabilities resulting from claims for employment benefits.

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

### **Note 6 - Conduit Debt**

The City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property of the private-sector entity being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the City of Milbank, the State of South Dakota, nor any other political subdivision of the State is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2022, there was one series of conduit bonds outstanding with an unpaid principal amount of approximately \$6,032,650.

## **Note 7 - Retirement Plan**

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

### **Benefits Provided**

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

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60% joint and survivor benefit, or a 100% 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% of compensation funded by part of the employer contribution. The VRAs will receive investment earnings based on investment returns.

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

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

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

All benefits except those depending on the member's accumulated contributions are annually increased by the Cost-of-Living Adjustment.

### Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6% of salary; Class B judicial members, 9% of salary; and, Class B public safety members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions made to the SDRS for the years ended December 31, 2022, 2021, and 2020, equal to the required contributions each year, were \$88,366, \$82,288, and \$66,090, respectively.

### Pension Liabilities (Assets) and Pension Expense

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

Proportionate share of pension liability	\$ 8,466,725
Less proportionate share of net pension restricted for pension benefits	<u>8,472,393</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (5,668)</u></u>

At December 31, 2022, the City's proportionate share is a liability (asset) of \$(5,668) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City's proportion was 0.059977%, which is an increase of 0.004712% from its proportion measured as of June 30, 2021. The City's proportionate share of the net pension liability (asset) is not reported in financial statements shown under the modified cash basis of accounting.

### Actuarial Assumptions

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

Inflation	2.50%
Salary increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service.
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%.
Future COLAs	2.10%

#### Mortality Rates

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65

Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above

Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

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

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

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	2.0%	0.4%
	100.0%	

### Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

### Sensitivity of Liability (Asset) to Change in the Discount Rate

The following presents the City's proportionate share of net pension liability (asset) calculated using the discount rate of 6.5%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage point higher (7.5%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 1,176,950	\$ (5,668)	\$ (972,180)

### Pension Plan Fiduciary Net Position

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

**Note 8 - Significant Contingencies - Litigation**

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

**Note 9 - Interfund Transfers**

During 2022, the City made the following transfers:

- The General Fund transferred a total of \$277,450 to the Water Fund for water tower rehab.
- The Recreation Gift Fund transferred a total of \$607,246 to the General Fund for various park and recreation costs.
- The Sewer Fund transferred a total of \$145,000 to the General Fund due to a surplus in the Sewer Fund.

**Note 10 - Tax Abatements**

The City has one active Tax Increment Financing (TIF) district in which the City has entered into an agreement with the developer (sponsor) of the TIF district. Under each agreement, property tax increments received by the City are paid to the project sponsor as a grant to cover eligible project expenses approved by resolution by the Planning Commission and the City Council, as allowed by South Dakota Codified Law Section 11-9. The project sponsor bears the risk that increments collected over the life of the TIF district will be less than sufficient to cover all eligible project expenses and the City bears no responsibility to make up any shortfall. When all approved project costs are paid, or the TIF is dissolved in accordance with state statutes, all property tax revenue will be distributed to the appropriate taxing entities. Increments totaling approximately \$67,379 were received by the City and paid to project sponsors during 2022.

**Note 11 - Commitments**

During 2022, the City approved contracts and began construction on a new baseball field complex. The City has spent all of their funds that had been committed to the project and any additional construction costs are to be funded through donations.

In July 2023, the City was awarded a \$12,500,000 loan from the clean water state revolving fund program to be used to improve the City's water wells and pumping station. These improvements are expected to begin in 2024.

The City has also entered into various commitments during 2023 relating to street and parks and recreation projects that are in the normal course of City operations.



Supplementary Information  
December 31, 2022

**City of Milbank**

City of Milbank  
Schedule of Changes in Notes and Bonds Payable  
Year Ended December 31, 2022

Notes and Bonds Payable	Notes and Bonds Payable 1/1/22	Add New Debt	Less Debt Retired	Notes and Bonds Payable 12/31/22
Governmental Long-Term Debt				
231.02 Revenue bonds	\$ 1,525,000	\$ 6,430,000 *	\$ 375,000	\$ 7,580,000
Enterprise Notes and Bonds Payable				
231.02 Revenue bonds				
Water - SRF	<u>1,510,923</u>	<u>-</u>	<u>175,693</u>	<u>1,335,230</u>
	<u>\$ 3,035,923</u>	<u>\$ 6,430,000</u>	<u>\$ 550,693</u>	<u>\$ 8,915,230</u>

\*Revenue bond proceeds of \$535,000 were allocated to the Water Fund for capital projects costs during 2022, but bond payments will continue to only be paid out of General Fund.



City of Milbank

Schedules of Employer Share of Net Pension Liability (Asset) and Pension Contributions  
Year Ended December 31, 2022

Pension Plan	Fiscal Year Ending *	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2022	0.0600%	\$ (5,668)	\$ 1,295,405	0.44%	100.10%
SDRS	6/30/2021	0.0553%	(423,235)	1,152,186	36.73%	105.52%
SDRS	6/30/2020	0.0477%	(2,073)	934,157	0.22%	100.04%
SDRS	6/30/2019	0.0484%	(5,130)	920,269	0.56%	100.09%
SDRS	6/30/2018	0.0453%	(1,057)	845,810	0.12%	100.02%
SDRS	6/30/2017	0.0455%	(4,125)	829,732	0.50%	100.1%
SDRS	6/30/2016	0.0495%	167,102	837,416	19.95%	96.9%
SDRS	6/30/2015	0.0502%	(213,011)	814,630	26.15%	104.1%

\* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30.

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2022	\$ 88,366	\$ 88,366	-	\$ 1,345,480	6.6%
SDRS	12/31/2021	82,288	82,288	-	1,254,668	6.6%
SDRS	12/31/2020	66,090	66,090	-	984,297	6.7%
SDRS	12/31/2019	63,660	63,660	-	949,055	6.7%
SDRS	12/31/2018	58,321	58,321	-	870,754	6.7%
SDRS	12/31/2017	55,938	55,938	-	835,995	6.7%
SDRS	12/31/2016	56,394	56,394	-	843,344	6.7%
SDRS	12/31/2015	55,218	55,218	-	816,972	6.8%

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

City of Milbank  
Budgetary Comparison Schedule—General Fund  
Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
310 Taxes				
311 General property taxes	\$ 874,275	\$ 874,275	\$ 951,876	\$ 77,601
313 General sales and use taxes	2,500,000	2,500,000	3,416,593	916,593
319 Penalties and interest on delinquent taxes	500	500	1,362	862
Total taxes	<u>3,374,775</u>	<u>3,374,775</u>	<u>4,369,831</u>	<u>995,056</u>
320 Licenses and permits	<u>16,660</u>	<u>16,660</u>	<u>78,267</u>	<u>61,607</u>
330 Intergovernmental revenue				
331 Federal grants	-	15,500	37,028	21,528
334 State grants	2,500	2,500	2,793	293
335 State shared revenue				
335.01 Bank franchise tax	9,000	9,000	7,385	(1,615)
335.02 Motor vehicle commercial prorated	7,400	7,400	8,404	1,004
335.03 Liquor tax reversion	20,000	20,000	24,834	4,834
335.04 Motor vehicle licenses (5%)	32,000	32,000	39,369	7,369
335.08 Local government highway and bridge fund	77,000	77,000	83,182	6,182
335.20 Other	10	10	-	(10)
338 County shared revenue				
338.01 County road tax (25%)	7,665	7,665	7,665	-
338.02 County road and bridge tax (25%)	10,000	10,000	11,803	1,803
339 Other governmental revenue	-	-	7,500	7,500
Total intergovernmental revenue	<u>165,575</u>	<u>181,075</u>	<u>229,963</u>	<u>48,888</u>
340 Charges for good and services				
341 General government	1,310	1,310	4,219	2,909
342 Public safety	2,100	2,100	5,691	3,591
344 Sanitation	30,500	30,500	111,605	81,105
346 Culture and recreation	430,710	430,710	475,274	44,564
348 Cemetery	12,000	12,000	18,000	6,000
349 Other (airport)	59,200	59,200	42,699	(16,501)
Total charges for goods and services	<u>535,820</u>	<u>535,820</u>	<u>657,488</u>	<u>121,668</u>
350 Fines and forfeits				
351 Court fines and costs	10	10	73	63
352 Animal control fines	350	350	299	(51)
359 Other	600	600	980	380
Total fines and forfeits	<u>960</u>	<u>960</u>	<u>1,352</u>	<u>392</u>
360 Miscellaneous revenue				
361 Investment earnings	7,200	7,200	28,866	21,666
362 Rentals	24,050	24,050	13,965	(10,085)
367 Contributions and donations from private sources	72,500	72,500	79,525	7,025
369 Other	32,500	38,680	45,428	6,748
Total miscellaneous revenue	<u>136,250</u>	<u>142,430</u>	<u>167,784</u>	<u>25,354</u>
Total revenues	<u>4,230,040</u>	<u>4,251,720</u>	<u>5,504,685</u>	<u>1,252,965</u>

City of Milbank  
Budgetary Comparison Schedule—General Fund  
Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
410 General government				
411 Legislative	50,870	51,070	48,273	2,797
411.5 Contingency	100,000	100,000		
Amount transferred	-	(92,200)	-	7,800
413 Elections	3,000	3,000	1,088	1,912
414 Financial administration	384,610	394,610	392,628	1,982
Total general government	<u>538,480</u>	<u>456,480</u>	<u>441,989</u>	<u>14,491</u>
420 Public safety				
421 Police	662,250	667,250	653,333	13,917
422 Fire	190,500	470,500	209,731	260,769
Total public safety	<u>852,750</u>	<u>1,137,750</u>	<u>863,064</u>	<u>274,686</u>
430 Public works				
431 Highways and streets	913,700	1,493,700	936,849	556,851
432 Sanitation	64,930	64,930	35,649	29,281
435 Airport	36,100	65,600	65,195	405
Total public works	<u>1,014,730</u>	<u>1,624,230</u>	<u>1,037,693</u>	<u>586,537</u>
450 Culture and recreation				
451 Recreation	961,145	1,658,145	1,163,094	495,051
452 Parks	2,067,300	3,893,300	3,095,794	797,506
Total culture and recreation	<u>3,028,445</u>	<u>5,551,445</u>	<u>4,258,888</u>	<u>1,292,557</u>
460 Conservation and Development				
463 Urban Redevelopment and Housing	-	67,500	67,379	121
470 Debt service	186,545	515,045	515,293	(248)
Total expenditures	<u>5,620,950</u>	<u>9,352,450</u>	<u>7,184,306</u>	<u>2,168,144</u>
Excess of Revenue over (under) Expenditures	<u>(1,390,910)</u>	<u>(5,100,730)</u>	<u>(1,679,621)</u>	<u>3,421,109</u>
<b>Other Financing Sources (Uses)</b>				
391.01 Transfers in	320,000	770,000	752,246	(17,754)
511 Transfers out	-	(277,450)	(277,450)	-
391.03 Sale of municipal property	10	10	-	(10)
391.04 Compensation for loss/damage to capital assets	10	10	4,000	3,990
391.2 Long-term debt issued	-	-	5,928,500	5,928,500
Total other financing sources (uses)	<u>320,020</u>	<u>492,570</u>	<u>6,407,296</u>	<u>5,914,726</u>
Net Change in Fund Balance	(1,070,890)	(4,608,160)	4,727,675	9,335,835
Fund Balance - Beginning	<u>1,734,596</u>	<u>1,734,596</u>	<u>1,734,596</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 663,706</u>	<u>\$ (2,873,564)</u>	<u>\$ 6,462,271</u>	<u>\$ 9,335,835</u>

City of Milbank  
 Budgetary Comparison Schedule—3<sup>rd</sup> Penny Sales Tax Fund  
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
310 Taxes				
313 General sales and use taxes	\$ 110,000	\$ 110,000	\$ 143,689	\$ 33,689
Total taxes	110,000	110,000	143,689	33,689
360 Miscellaneous revenue				
361 Investment earnings	200	200	426	226
Total miscellaneous revenue	200	200	426	226
Total revenue	110,200	110,200	144,115	33,915
<b>Expenditures</b>				
460 Conservation and development				
465 Economic development and assistance (industrial development)	111,710	161,710	141,329	20,381
Total expenditures	111,710	161,710	141,329	20,381
Excess of Revenue over (under) Expenditures	(1,510)	(51,510)	2,786	54,296
<b>Other Financing Sources</b>				
391.2 Debt issued	-	-	50,000	(50,000)
Total other financing sources	-	-	50,000	(50,000)
Net Change in Fund Balance	(1,510)	(51,510)	52,786	104,296
Fund Balance - Beginning	58,037	58,037	58,037	-
Fund Balance - Ending	\$ 56,527	\$ 6,527	\$ 110,823	\$ 104,296

City of Milbank  
 Budgetary Comparison Schedule—Recreation Gift Fund  
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
360 Miscellaneous revenue				
361 Investment earnings	\$ -	\$ -	\$ 1,733	\$ 1,733
367 Contributions and donations from private sources	-	450,000	741,803	291,803
Total miscellaneous revenue	-	450,000	743,536	293,536
Total revenue	-	450,000	743,536	293,536
<b>Expenditures</b>				
490 Miscellaneous				
492 Other expenditures	-	700	360	340
Total expenditures	-	700	360	340
Excess of Revenue over (under) Expenditures	-	449,300	743,176	293,876
<b>Other Financing Sources (Uses)</b>				
511 Transfers out	-	(450,000)	(607,246)	(157,246)
Total other financing sources (uses)	-	(450,000)	(607,246)	(157,246)
Net Change in Fund Balance	-	(700)	135,930	136,630
Fund Balance - Beginning	351,954	351,954	351,954	-
Fund Balance - Ending	<u>\$ 351,954</u>	<u>\$ 351,254</u>	<u>\$ 487,884</u>	<u>\$ 136,630</u>

**Note 1 - Budgets and Budgetary Accounting**

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

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

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

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

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

**Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences**

The financial statements prepared on the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances; however, in the budgetary schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department-related expenditures.

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

#### **Changes from Prior Valuation**

The June 30, 2022, Actuarial Valuation reflects numerous changes to the actuarial assumptions as a result of an experience analysis completed since the June 30, 2021, Actuarial Valuation. In addition, two changes in actuarial methods have been implemented since the prior valuation.

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

#### **Benefit Provision Changes**

During the 2022 legislative session, no significant SDRS benefit changes were made and gaming enforcement agents became Class B public safety members.

#### **Actuarial Assumption Changes**

As a result of an experience analysis covering the period from July 1, 2016 to June 30, 2021, and presented to the SDRS Board of Trustees in April and June 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees, first effective for this June 30, 2022, actuarial valuation.

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%.

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification, and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that, if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021, Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

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

#### **Actuarial Method Changes**

Actuarial method changes with minor impact were implemented for this valuation after recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Account are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.





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

The City Council  
City of Milbank  
Milbank, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Milbank (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated November 15, 2023. In our report, we issued an adverse opinion on the discretely presented component unit because the financial statements included only the primary government and not the City’s legally separate component unit. The financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Report on Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2022-001, that we consider to be a significant deficiency.

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

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

### **City of Milbank's Response to Finding**

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive style. To the right of the signature is a vertical yellow line.

Aberdeen, South Dakota  
November 15, 2023

**Finding 2022-001 — Financial Statements and Footnotes are Prepared by the Auditor**

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

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

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

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

*Recommendation:* This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the basis of accounting described in Note 1 has been followed for each fund type, especially for transaction types infrequent in occurrence.

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