



Financial Statements  
December 31, 2020  
**City of Clear Lake**

Mayor ..... Gary Eide

Governing Board ..... John Keimig, President  
Harry Mewherter, Vice-President  
Carey Holt  
Rose Mack  
Kelli Bauman  
Lisa Lundberg

Finance Officer ..... Christa Bittner

Attorney ..... Todd Boyd

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## Independent Auditor's Report

The City Council  
City of Clear Lake  
Clear Lake, South Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Clear Lake (the City) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes 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 Responsibility

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

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

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

**Summary of Opinions**

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Unit	Adverse
General Fund	Unmodified
Liquor, Lodging, and Dining Gross Receipts Tax Fund	Unmodified
Health Care Fund	Unmodified
Library Fines Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified

**Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit**

Management has not included the financial data for a legally separate component unit in the City’s financial statements. 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 for the City’s primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The amount by which this departure would affect the assets, net position, revenues, and expenditures of the aggregate discretely presented component unit has not been determined.

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

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit” paragraph, the modified cash basis financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component unit of the City as of December 31, 2020, or the changes in financial position thereof, for the year then ended in accordance with modified cash basis of accounting.

**Unmodified Opinions**

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, the business-type activities, and each major fund of the City of Clear Lake as of December 31, 2020, and the respective changes in financial position - modified cash basis and, where applicable, cash flows - modified cash basis thereof as of and for the year then ended in conformity with the basis of accounting described in Note 1.

**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.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The schedule of employer's share of net pension liability (asset) and employer's contributions, budgetary comparison schedules, and schedule of changes in notes and bonds payable are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of employer's share of net pension liability (asset) and employer's contributions, budgetary comparison schedules, and schedule of changes in notes and bonds payable are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter described in the Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit paragraph, it is inappropriate to, and we do not, express an opinion on such supplementary information.

The listing of municipal officers has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Aberdeen, South Dakota  
October 27, 2021

City of Clear Lake  
Statement of Net Position—Modified Cash Basis  
December 31, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,972,366	\$ 997,295	\$ 2,969,661
Investments	175,000	-	175,000
Restricted assets:			
Cash and cash equivalents	3,600	131,934	135,534
Due from (to) funds	50,000	(50,000)	-
	<u>\$ 2,200,966</u>	<u>\$ 1,079,229</u>	<u>\$ 3,280,195</u>
<b>Net Position</b>			
Restricted for:			
Customer deposits	\$ 3,600	\$ 57,720	\$ 61,320
Promoting the City	62,283	-	62,283
Library	6,474	-	6,474
Debt service purposes	-	104,749	104,749
Equipment repair or replacement	-	40,585	40,585
Unrestricted	<u>2,128,609</u>	<u>876,175</u>	<u>3,004,784</u>
	<u>\$ 2,200,966</u>	<u>\$ 1,079,229</u>	<u>\$ 3,280,195</u>

City of Clear Lake  
Statement of Activities—Modified Cash Basis  
Year Ended December 31, 2020

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	\$ 195,433	\$ 21,484	\$ -	\$ -	\$ (173,949)	\$ -	\$ (173,949)
Public safety	118,972	36	-	-	(118,936)	-	(118,936)
Public works	915,877	73,326	140,714	340,567	(361,270)	-	(361,270)
Health and welfare	255,208	-	-	3,050	(252,158)	-	(252,158)
Culture and recreation	237,113	83,409	-	5,177	(148,527)	-	(148,527)
Conservation and development	15,609	-	-	-	(15,609)	-	(15,609)
Total governmental activities	1,738,212	178,255	140,714	348,794	(1,070,449)	-	(1,070,449)
Business-type activities:							
Water	270,640	400,892	-	-	-	130,252	130,252
Sewer	302,608	289,447	-	-	-	(13,161)	(13,161)
Total business-type activities	573,248	690,339	-	-	-	117,091	117,091
Total primary government	\$ 2,311,460	\$ 868,594	\$ 140,714	\$ 348,794	(1,070,449)	117,091	(953,358)
<b>General Revenues</b>							
Taxes:							
Property taxes					470,810	-	470,810
Sales taxes					708,367	-	708,367
State shared revenues					11,568	-	11,568
Unrestricted investment earnings					4,296	1,597	5,893
Miscellaneous revenue					54,701	-	54,701
Total general revenues					1,249,742	1,597	1,251,339
Change in Net Position					179,293	118,688	297,981
Net Position - Beginning					2,021,673	960,541	2,982,214
Net Position - Ending					\$ 2,200,966	\$ 1,079,229	\$ 3,280,195

See Notes to Financial Statements

City of Clear Lake  
Balance Sheet—Modified Cash Basis—Governmental Funds  
December 31, 2020

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Library Fines Fund	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 1,903,609	\$ 62,283	\$ 6,474	\$ 1,972,366
Restricted cash and cash equivalents	3,600	-	-	3,600
Investments	175,000	-	-	175,000
Due from other funds	50,000	-	-	50,000
	<u>\$ 2,132,209</u>	<u>\$ 62,283</u>	<u>\$ 6,474</u>	<u>\$ 2,200,966</u>
<b>Fund Balances</b>				
263 Nonspendable	\$ 3,600	\$ -	\$ -	\$ 3,600
264 Restricted for:				
Promoting the city	-	62,283	-	62,283
Library	-	-	6,474	6,474
267 Unassigned	2,128,609	-	-	2,128,609
	<u>\$ 2,132,209</u>	<u>\$ 62,283</u>	<u>\$ 6,474</u>	<u>\$ 2,200,966</u>

City of Clear Lake

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds  
Year Ended December 31, 2020

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Health Care Fund	Library Fines Fund	Total Governmental Funds
<b>Revenues</b>					
310 Taxes					
311 General property taxes	\$ 465,503	\$ -	\$ -	\$ -	\$ 465,503
313 General sales and use taxes	451,834	19,375	237,158	-	708,367
314 Gross receipts business taxes	3,473	-	-	-	3,473
315 Amusement taxes	216	-	-	-	216
319 Penalties and interest on delinquent taxes	1,618	-	-	-	1,618
Total taxes	922,644	19,375	237,158	-	1,179,177
320 Licenses and permits	7,520	-	-	-	7,520
330 Intergovernmental revenue					
331 Federal grants	86,307	-	-	-	86,307
334 State grants	340,567	-	-	-	340,567
335 State shared revenue					
335.01 Bank franchise tax	2,757	-	-	-	2,757
335.02 Motor vehicle commercial prorated	3,960	-	-	-	3,960
335.03 Liquor tax reversion	8,811	-	-	-	8,811
335.04 Motor vehicle licenses (5%)	20,288	-	-	-	20,288
335.08 Local government highway and bridge fund	23,766	-	-	-	23,766
338 County shared revenue					
338.01 County road tax (25%)	2,484	-	-	-	2,484
338.03 County wheel tax	3,909	-	-	-	3,909
Total intergovernmental revenue	492,849	-	-	-	492,849
340 Charges for goods and services					
344 Sanitation	73,326	-	-	-	73,326
346 Culture and recreation	83,409	-	-	-	83,409
Total charges for good and services	156,735	-	-	-	156,735
350 Fines and forfeits					
351 Court fines and costs	36	-	-	-	36
Total fines and forfeits	36	-	-	-	36
360 Miscellaneous revenue					
361 Investment earnings	4,296	-	-	-	4,296
362 Rentals	13,964	-	-	-	13,964
367 Contributions and donations from private sources	3,050	-	-	5,177	8,227
368 Liquor operating agreement income	23,159	-	-	-	23,159
369 Other	31,542	-	-	-	31,542
Total miscellaneous revenue	76,011	-	-	5,177	81,188
Total revenues	1,655,795	19,375	237,158	5,177	1,917,505

City of Clear Lake

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds  
Year Ended December 31, 2020

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Health Care Fund	Library Fines Fund	Total Governmental Funds
<b>Expenditures</b>					
410 General government					
411 Legislative	33,398	-	-	-	33,398
412 Executive	6,324	-	-	-	6,324
414 Financial administration	108,264	-	-	-	108,264
419 Other	39,030	-	-	-	39,030
Total general government	187,016	-	-	-	187,016
420 Public safety					
421 Police	64,056	-	-	-	64,056
422 Fire	54,862	-	-	-	54,862
423 Protective inspection	54	-	-	-	54
Total public safety	118,972	-	-	-	118,972
430 Public works					
431 Highways and streets	274,079	-	-	-	274,079
432 Sanitation	81,082	-	-	-	81,082
435 Airport	5,815	-	-	-	5,815
439 Transit	200	-	-	-	200
Total public works	361,176	-	-	-	361,176
440 Health and welfare					
441 Health	3,019	-	-	-	3,019
446 Ambulance	-	-	9,099	-	9,099
447 Hospitals, nursing homes and rest homes	-	-	243,090	-	243,090
Total health and welfare	3,019	-	252,189	-	255,208
450 Culture and recreation					
451 Recreation	65,365	-	-	-	65,365
452 Parks	62,164	-	-	-	62,164
455 Libraries	63,934	-	-	5,177	69,111
456 Auditorium	19,436	-	-	-	19,436
457 Historical preservation	2,500	-	-	-	2,500
Total culture and recreation	213,399	-	-	5,177	218,576
460 Conservation and development					
465 Economic development and assistance	6,000	9,609	-	-	15,609
Total conservation and development	6,000	9,609	-	-	15,609
485 Capital outlay	581,655	-	-	-	581,655
Total expenditures	1,471,237	9,609	252,189	5,177	1,738,212
Net Change in Fund Balance	184,558	9,766	(15,031)	-	179,293
Fund Balance - Beginning	1,947,651	52,517	15,031	6,474	2,021,673
Fund Balance - Ending	\$ 2,132,209	\$ 62,283	\$ -	\$ 6,474	\$ 2,200,966

City of Clear Lake  
Statement of Net Position—Modified Cash Basis—Proprietary Funds  
December 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 192,371	\$ 804,924	\$ 997,295
Total current assets	<u>192,371</u>	<u>804,924</u>	<u>997,295</u>
Noncurrent Assets			
107.1 Restricted cash and cash equivalents	85,069	46,865	131,934
Total noncurrent assets	<u>85,069</u>	<u>46,865</u>	<u>131,934</u>
	<u>\$ 277,440</u>	<u>\$ 851,789</u>	<u>\$ 1,129,229</u>
Liabilities and Net Position			
Current Liabilities			
Due to other funds	\$ 50,000	\$ -	\$ 50,000
Net Position			
253.20 Restricted net position for:			
253.21 Revenue bond debt service	27,349	77,400	104,749
253.26 Equipment repair and/or replacement	-	40,585	40,585
253.29 Customer deposits	57,720	-	57,720
253.90 Unrestricted	<u>142,371</u>	<u>733,804</u>	<u>876,175</u>
Total net position	<u>227,440</u>	<u>851,789</u>	<u>1,079,229</u>
	<u>\$ 277,440</u>	<u>\$ 851,789</u>	<u>\$ 1,129,229</u>

City of Clear Lake

Statement of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	\$ 400,892	\$ 289,447	\$ 690,339
Total operating revenue	400,892	289,447	690,339
Operating Expenses			
410 Personal services	54,353	53,868	108,221
420 Other current expense	85,530	111,500	197,030
426.2 Materials	100,988	-	100,988
430 Capital assets	2,420	17,091	19,511
Total operating expenses	243,291	182,459	425,750
Operating Income	157,601	106,988	264,589
Nonoperating Revenue (Expense)			
361 Investment earnings	145	1,452	1,597
440 Debt service principal	(19,913)	(75,315)	(95,228)
442 Interest expense	(7,436)	(44,834)	(52,270)
Total nonoperating expense	(27,204)	(118,697)	(145,901)
Income (Loss)	130,397	(11,709)	118,688
Net Position - Beginning	97,043	863,498	960,541
Net Position - Ending	\$ 227,440	\$ 851,789	\$ 1,079,229

City of Clear Lake  
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from Operating Activities			
Receipts from customers	\$ 400,892	\$ 289,447	\$ 690,339
Payments to suppliers	(186,518)	(111,500)	(298,018)
Payments to employees	(54,353)	(53,868)	(108,221)
Net Cash from Operating Activities	<u>160,021</u>	<u>124,079</u>	<u>284,100</u>
Cash Flows used for Capital and Related Financing Activities			
Purchase of capital assets	(2,420)	(17,091)	(19,511)
Principal paid on capital debt	(19,913)	(75,315)	(95,228)
Interest paid on capital debt	(7,436)	(44,834)	(52,270)
Net Cash used for Capital and Related Financing Activities	<u>(29,769)</u>	<u>(137,240)</u>	<u>(167,009)</u>
Cash Flows from Investing Activities			
Interest earnings	145	1,452	1,597
Net Cash from Investing Activities	<u>145</u>	<u>1,452</u>	<u>1,597</u>
Net Change in Cash and Cash Equivalents	130,397	(11,709)	118,688
Cash and Cash Equivalents - Beginning	<u>147,043</u>	<u>863,498</u>	<u>1,010,541</u>
Cash and Cash Equivalents - Ending	<u>\$ 277,440</u>	<u>\$ 851,789</u>	<u>\$ 1,129,229</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 192,371	\$ 804,924	\$ 997,295
Restricted cash and cash equivalents	85,069	46,865	131,934
	<u>\$ 277,440</u>	<u>\$ 851,789</u>	<u>\$ 1,129,229</u>
Reconciliation of Operating Income to Net Cash from Operating activities			
Operating income	\$ 157,601	\$ 106,988	\$ 264,589
Adjustments to reconcile operating income to net cash from operating activities:			
Purchase of capital assets included in capital and related financing activities	2,420	17,091	19,511
Net Cash from Operating Activities	<u>\$ 160,021</u>	<u>\$ 124,079</u>	<u>\$ 284,100</u>

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

As discussed further in Note 1.C., the financial statements are presented on the 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 Clear Lake (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 Clear Lake, and one component unit, The Housing and Redevelopment Commission of the City of Clear Lake.

The Housing and Redevelopment Commission of the City of Clear Lake (Commission) is a component unit of the City of Clear Lake. The five members of the Commission are appointed by the Mayor with the approval of the governing board for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The governing board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a housing unit, or to issue debt, which gives the governing board the ability to impose its will on the Commission. Due to the financial statements of this entity being excluded from the City's financial statements, the opinion of the auditor's report has been modified.

### **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 is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. 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 Clear Lake are described below:

### **Governmental Funds**

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

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

- **Liquor, Lodging and Dining Gross Receipts Tax Fund** – Fund to account for an additional one percent sales tax on the gross receipts of lodging, alcoholic beverages, prepared food, and admissions which tax shall be used for the purpose of land acquisition, architectural fees, constructions costs, payments for civic center, auditorium, or athletic facilities buildings including the promotion of advertising of the City (SDCL § 10-52A-2). This is a major fund.
- **Health Care Fund** – Fund to account for allocated sales tax receipts for the support of health care activities. This is a major fund.
- **Library Fines Fund** – A fund allowed by SDCL § 14-2-42 to account for library-related fines, similar charges and donations to be used for library activities. 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 non-operating 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. All revenues and expenses not meeting this definition are reported as non-operating 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 interfund advances and borrowings arising from the use of a pooled cash account.

The 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 expense or expenditures (such as accounts payable and expenses for goods and 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 in the respective proprietary fund statement of cash flows, “cash and cash equivalents” includes all demand, savings, and certificates of deposit accounts, or other short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares or similar investments in external investment pools are also considered to be cash equivalents.

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

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

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

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

- The City presents the net residual amounts due between governmental and business-type activities, which are presented as amounts due to or due from other funds.
- The City did not have internal service fund activity which required elimination as of December 31, 2020.

#### **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 as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

#### **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 City would first use committed, then assigned, and, lastly, unassigned amounts of unrestricted 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 in nonspendable 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.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. An assigned fund balance is established by the City Council through adoption of a resolution designating a fund balance as intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Liquor, Lodging, and Dining Gross Receipts Tax Fund	Sales taxes
Health Care Fund	Sales taxes
Library Fines Fund	Fines and donations

**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, 2020, 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, 2020, are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 336,023
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	2,991,810
	\$ 3,327,833

The City's carrying amount of deposits at December 31, 2020, is as follows:

Cash and cash equivalents	\$ 3,105,195
Investments	175,000
	\$ 3,280,195

### Investments

In general, SDCL § 4-5-6 permits City funds 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) above; or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. 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.

As of December 31, 2020, the City did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

**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. As of December 31, 2020, all of the City's investments consist of certificates of deposit which have maturities of less than one year.

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

**Assignment of Investment Income** – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment, as permitted by SDCL § 9-32-18.

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

### **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 - 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 pension 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, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

#### **Benefits Provided**

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

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

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

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

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

**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. The City’s share of contributions to the SDRS for the years ended December 31, 2020, 2019, and 2018 were \$14,694, \$13,290, and \$13,491, respectively, equal to the required contributions each year.

**Pension Liability (Asset)**

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

Proportionate share of pension liability	\$ 1,270,247
Less proportionate share of net position restricted for pension benefits	<u>1,270,696</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (449)</u></u>

At December 31, 2020, the City’s proportionate share is a liability (asset) of \$(449) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2020, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the City’s proportion was 0.0103%, which is a decrease of 0.0004% from its proportion measured as of June 30, 2019. The City’s proportionate share 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, 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, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%
	<u>100.0%</u>	

**Discount Rate**

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

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

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

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 174,091	\$ (449)	\$ (143,219)

**Pension Plan Fiduciary Net Position**

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

**Note 5 - Significant Contingencies – Litigation**

At December 31, 2020, the City was not involved in any litigation that would be material to the financial statements.

**Note 6 - Restricted Net Position**

Restricted net position for the year ended December 31, 2020, is as follows:

Fund	Restricted By	Amount
General Fund	Contractual	\$ 3,600
Liquor, Lodging, and Dining		
Gross Receipts Sales Tax Fund	State Law	62,283
Library Fines Fund	Contractual	6,474
Water Fund	Contractual	85,069
Sewer Fund	Contractual	117,985

## **Note 7 - 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, 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 coverage includes a no lifetime maximum payment per person.

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 governmental liability coverage, automobile liability coverage, governmental property coverage, and government crime coverage.

The City carries a deductible ranging from \$0 to \$50,000 depending on the specific coverage within governmental liability coverage, a \$0 deductible for automobile liability coverage, a deductible ranging from \$0 to \$10,000 depending on the specific type of coverage within governmental property coverage, and a \$0 deductible for government crime coverage.

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:

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

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

As of December 31, 2020, the City's balance available to be refunded per the SDPAA was \$43,145, which was an increase of \$689 from the previous year.

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 limits 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 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 year ended December 31, 2020, no claims for unemployment benefits were paid. At December 31, 2020, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

**Note 8 - Interfund Transactions**

As of December 31, 2020, the Water Fund has borrowed \$50,000 from the General Fund to help supplement operations in the prior year for a Water Fund project. The Water Fund anticipates repaying the whole amount borrowed back to the General Fund within the next year subject to availability of cash within the Water Fund generated from net income from Water Fund operations.

**Note 9 - Subsequent Events**

In February 2021, the City Council approved a resolution for construction of natural gas line expansion to a new corn processing plant at an estimated cost of approximately \$401,500. Up to \$200,750 of the construction cost is to be funded by a South Dakota Office of Economic Development Grant from the Local Infrastructure Improvement Program which was accepted in February 2021 with the remaining amount to be borne by the City.

In August 2021, the City Council approved a resolution creating TIF District #1. As of the date of issuance of these financial statements, a developer's agreement has yet to be finalized. TIF eligible costs are estimated to be approximately \$194,000 that would approximate the maximum amount of tax increment revenue obligation to be repaid from future incremental revenue generated by the Tax Increment District.

In September 2021, the City received an allocation of \$225,679 in federal grant funds from the American Rescue Plan Act (ARPA) of which half of the allocation was received in 2021 and the other half expected to be received in 2022.



Supplementary Information  
December 31, 2020

# City of Clear Lake

City of Clear Lake

Schedule of Employer's Share of Net Pension Liability (Asset) and Employer's Contribution  
Year Ended December 31, 2020

Pension Plan	Fiscal Year Ending *	City's Percentage 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	6/29/2020	0.0103%	\$ (449)	\$ 226,780	0.2%	100.04%
SDRS	6/30/2019	0.0107%	(1,139)	228,534	0.5%	100.09%
SDRS	6/30/2018	0.0104%	(243)	216,248	0.1%	100.02%
SDRS	6/30/2017	0.0100%	(904)	202,298	0.4%	100.1%
SDRS	6/30/2016	0.0105%	35,465	199,633	17.8%	96.89%
SDRS	6/30/2015	0.0106%	(45,099)	194,133	23.2%	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	12/31/2020	\$ 14,694	\$ 14,694	\$ -	\$ 244,891	6.0%
SDRS	12/31/2019	13,290	13,290	-	221,507	6.0%
SDRS	12/31/2018	13,491	13,491	-	224,855	6.0%
SDRS	12/31/2017	12,411	12,411	-	206,854	6.0%
SDRS	12/31/2016	11,930	11,930	-	198,825	6.0%
SDRS	12/31/2015	11,859	11,859	-	197,600	6.0%

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

City of Clear Lake  
Schedule of Changes in Notes and Bonds Payable  
Year Ended December 31, 2020

<u>Governmental activities</u>	<u>Notes and Bonds Payable 1/1/20</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/20</u>
Enterprise Long-Term Debt				
State Revolving Fund Loan				
Drinking Water	\$ 255,433	\$ -	(19,913)	\$ 235,520
Clean Water	283,017	-	(38,128)	244,889
USDA RD Loan - Sewer	1,942,210	-	(37,187)	1,905,023
	<u>\$ 2,480,660</u>	<u>\$ -</u>	<u>\$ (95,228)</u>	<u>\$ 2,385,432</u>

City of Clear Lake  
Budgetary Comparison Schedule—General Fund  
Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
310 Taxes				
311 General property taxes	\$ 477,424	\$ 477,424	\$ 465,503	\$ (11,921)
313 General sales and use taxes	275,000	275,000	451,834	176,834
314 Gross receipts business taxes	4,000	4,000	3,473	(527)
315 Amusement	240	240	216	(24)
319 Penalties and interest on delinquent taxes	-	-	1,618	1,618
Total taxes	<u>756,664</u>	<u>756,664</u>	<u>922,644</u>	<u>165,980</u>
320 Licenses and permits	<u>4,000</u>	<u>4,000</u>	<u>7,520</u>	<u>3,520</u>
330 Intergovernmental revenue				
331 Federal grants	-	86,307	86,307	-
334 State grants	-	340,567	340,567	-
335 State shared revenue				
335.01 Bank franchise tax	2,000	2,000	2,757	757
335.02 Motor vehicle commercial prorated	3,000	3,000	3,960	960
335.03 Liquor tax reversion	8,000	8,000	8,811	811
335.04 Motor vehicle licenses (5%)	18,000	18,000	20,288	2,288
335.08 Local government highway and bridge fund	22,000	22,000	23,766	1,766
338 County shared revenue				
338.01 County road tax (25%)	2,485	2,485	2,484	(1)
338.02 County road and bridge tax (25%)	1,000	1,000	-	(1,000)
338.03 County wheel tax	<u>3,400</u>	<u>3,400</u>	<u>3,909</u>	<u>509</u>
Total intergovernmental revenue	<u>59,885</u>	<u>486,759</u>	<u>492,849</u>	<u>6,090</u>
340 Charges for good and services				
344 Sanitation	87,000	87,000	73,326	(13,674)
346 Culture and recreation	<u>24,000</u>	<u>34,000</u>	<u>83,409</u>	<u>49,409</u>
Total charges for goods and services	<u>111,000</u>	<u>121,000</u>	<u>156,735</u>	<u>35,735</u>
350 Fines and forfeits				
351 Court fines and costs	<u>50</u>	<u>50</u>	<u>36</u>	<u>(14)</u>
Total fines and forfeits	<u>50</u>	<u>50</u>	<u>36</u>	<u>(14)</u>
360 Miscellaneous revenue				
361 Investment earnings	7,000	7,000	4,296	(2,704)
362 Rentals	14,000	14,000	13,964	(36)
367 Contributions and donations from private sources	200	200	3,050	2,850
368 Liquor operating agreement income	20,650	20,650	23,159	2,509
369 Other	<u>5,600</u>	<u>5,600</u>	<u>31,542</u>	<u>25,942</u>
Total miscellaneous revenue	<u>47,450</u>	<u>47,450</u>	<u>76,011</u>	<u>28,561</u>
Total revenues	<u>979,049</u>	<u>1,415,923</u>	<u>1,655,795</u>	<u>239,872</u>

City of Clear Lake  
Budgetary Comparison Schedule—General Fund  
Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	25,055	34,399	33,398	1,001
411.5 Contingency	49,755	49,755		
Amount transferred	-	(48,267)	-	1,488
412 Executive	5,520	6,308	6,324	(16)
413 Elections	1,000	1,000	-	1,000
414 Financial administration	93,605	119,711	112,102	7,609
419 Other	40,531	56,502	43,609	12,893
Total general government	<u>215,466</u>	<u>219,408</u>	<u>195,433</u>	<u>23,975</u>
420 Public safety				
421 Police	69,300	101,384	64,056	37,328
422 Fire	41,670	55,969	54,862	1,107
423 Protective inspection	35	65	54	11
Total public safety	<u>111,005</u>	<u>157,418</u>	<u>118,972</u>	<u>38,446</u>
430 Public works				
431 Highways and streets	350,910	930,194	828,780	101,414
432 Sanitation	95,315	95,503	81,082	14,421
435 Airport	6,830	6,830	5,815	1,015
439 Transit	200	200	200	-
Total public works	<u>453,255</u>	<u>1,032,727</u>	<u>915,877</u>	<u>116,850</u>
440 Health and welfare				
441 Health	5,526	6,093	3,019	3,074
Total health and welfare	<u>5,526</u>	<u>6,093</u>	<u>3,019</u>	<u>3,074</u>
450 Culture and recreation				
451 Recreation	105,125	105,125	75,045	30,080
452 Parks	59,360	69,360	69,161	199
455 Library	59,104	65,054	63,934	1,120
456 Auditorium	27,520	29,020	21,296	7,724
457 Historical preservation	2,500	2,500	2,500	-
Total culture and recreation	<u>253,609</u>	<u>271,059</u>	<u>231,936</u>	<u>39,123</u>
460 Conservation and development				
465 Economic development and assistance	6,000	6,000	6,000	-
Total conservation and development	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>-</u>
Total expenditures	<u>1,044,861</u>	<u>1,692,705</u>	<u>1,471,237</u>	<u>221,468</u>
Net Change in Fund Balance	(65,812)	(276,782)	184,558	461,340
Fund Balance - Beginning	<u>1,947,651</u>	<u>1,947,651</u>	<u>1,947,651</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,881,839</u>	<u>\$ 1,670,869</u>	<u>\$ 2,132,209</u>	<u>\$ 461,340</u>

City of Clear Lake  
 Budgetary Comparison Schedule—Liquor, Lodging and Dining Gross Receipts Tax Fund  
 Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 17,000	\$ 17,000	\$ 19,375	\$ 2,375
Total taxes	17,000	17,000	19,375	2,375
Total revenues	17,000	17,000	19,375	2,375
Expenditures				
460 Conservation and development				
465 Economic development and assistance	17,000	17,000	9,609	7,391
Total expenditures	17,000	17,000	9,609	7,391
Net Change in Fund Balance	-	-	9,766	9,766
Fund Balance - Beginning	52,517	52,517	52,517	-
Fund Balance - Ending	\$ 52,517	\$ 52,517	\$ 62,283	\$ 9,766

City of Clear Lake  
 Budgetary Comparison Schedule—Health Care Fund  
 Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 300,000	\$ 300,000	\$ 237,158	\$ (62,842)
Total taxes	300,000	300,000	237,158	(62,842)
Total revenues	300,000	300,000	237,158	(62,842)
Expenditures				
440 Health and welfare				
446 Ambulance	10,000	10,000	9,099	901
447 Hospitals, nursing homes and rest homes	290,000	290,000	243,090	46,910
Total expenditures	300,000	300,000	252,189	47,811
Net Change in Fund Balance	-	-	(15,031)	(15,031)
Fund Balance - Beginning	15,031	15,031	15,031	-
Fund Balance - Ending	\$ 15,031	\$ 15,031	\$ -	\$ (15,031)

City of Clear Lake  
 Budgetary Comparison Schedule—Library Fines Fund  
 Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue				
367 Contributions and donations from private sources	\$ 8,000	\$ 8,000	\$ 5,177	\$ (2,823)
Total miscellaneous revenue	8,000	8,000	5,177	(2,823)
Total revenues	8,000	8,000	5,177	(2,823)
Expenditures				
450 Culture and recreation				
455 Libraries	8,000	8,000	5,177	2,823
Total expenditures	8,000	8,000	5,177	2,823
Net Change in Fund Balance	-	-	-	-
Fund Balance - Beginning	6,474	6,474	6,474	-
Fund Balance - Ending	<u>\$ 6,474</u>	<u>\$ 6,474</u>	<u>\$ 6,474</u>	<u>\$ -</u>

**Note 1 - Budgets and Budgetary Accounting**

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

1. At the first regular City Council 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, 2020.

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 comparison 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 Employer's Share of Net Pension Liability (Asset) and Employer's Contributions**

**Changes from Prior Valuation:**

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

**Benefit Provision Changes:**

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

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

**Actuarial Assumption Changes:**

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

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

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



**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 Clear Lake  
Clear Lake, 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 Clear Lake (the City) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated October 27, 2021. In our report, we issued an adverse opinion on the aggregate discretely presented component unit because the statements did not include the City’s legally separate component unit. The 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.

**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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control as items 2020-001 and 2020-002 that we consider to be material weaknesses.

### **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 Clear Lake's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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  
October 27, 2021

## **2020-001 Lack of Segregation of Duties**

### **Material Weakness**

*Criteria:* A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. It also allows for adequate review of manual adjusting journal entries posted by individuals separate from who originated the entry.

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

*Cause:* The City has an insufficient number of staff to adequately separate duties and has determined it would not be cost effective to hire additional staff.

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

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

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

## **2020-002 - Preparation of Financial Statements, Footnotes, and Audit Adjustments**

### **Material Weakness**

*Criteria:* The City of Clear Lake's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing all necessary entries to the financial statements being audited in accordance with the modified cash basis of accounting.

*Condition:* The City requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2020. As a part of the financial statement preparation process, we compiled certain net position restrictions in the proprietary funds and we proposed certain audit adjustments that were not identified as a result of the City's existing internal controls which, therefore, could result in a misstatement of the City's financial statements.

*Cause:* The City does not have staff able to prepare the financial statements and the related footnotes which could cause the need for auditors to, at times, propose various journal entries.

*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 a city of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

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