

**MUNICIPALITY OF HERREID  
HERREID, SOUTH DAKOTA  
AUDIT REPORT  
FOR THE YEAR THEN ENDED  
DECEMBER 31, 2021**

**MUNICIPALITY OF HERREID**  
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# CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANT

## 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

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Municipal Council  
Municipality of Herreid  
Herreid, 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 modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Herreid, South Dakota, as of December 31, 2021 and for the year then ended and the related notes to the financial statements, which collectively comprises the Municipality's basic financial statements and have issued our report thereon dated October 3, 2022, which was adverse on the aggregate discretely presented component units because the financial statements do not include financial data for the Municipality's legally separate component unit.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the 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 Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 Municipality's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings, as items 2021-001, 2021-002, 2021-003, 2021-004, 2021-005, 2021-006, and 2021-007 to be material weaknesses.

*Jason W. Bauer, CPA, CGMA, PFS • [bauer@cahillbauer.com](mailto:bauer@cahillbauer.com)*

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

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of 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 determination of financial statement amounts. 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Municipality's Response to Findings**

The Municipality's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The Municipality'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 results of that testing, and not to provide an opinion on the effectiveness of the Municipality'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.

*Caillie Bamer*

Mobridge, South Dakota  
October 3, 2022



# CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**Independent Auditor's Report**

City Council  
Municipality of Herreid  
Herreid, South Dakota

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited the Municipality of Herreid, South Dakota (Municipality), compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the Municipality's major federal programs for the year ended December 31, 2021. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

In our opinion, the Municipality of Herreid complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Municipality and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Municipality's compliance with the compliance requirements referred to above.

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### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Municipality's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Municipality's compliance based on our audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Municipality's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 Municipality's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of Municipality's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.

*Caillie Bowen*

Mobridge, South Dakota  
October 3, 2022

**MUNICIPALITY OF HERREID**  
**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2021**

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**PRIOR FINDINGS - FINANCIAL STATEMENT AUDIT:**

**Finding 2020-001:**

A material weakness was reported for a lack of proper segregation of duties for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss public assets.

**Current Status**

Ongoing: Condition still exists, see current audit finding number 2021-001. The reason for recurrence is due to cost considerations, the Municipality has determined it is not practical to employ additional staff to adequately segregate duties. The Municipality will implement compensating controls where practical.

**Finding 2020-002:**

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

**Current Status**

Ongoing: Condition still exists, see current audit finding number 2021-002. The reason for recurrence is due to cost considerations, the Municipality accepts the risks associated with the auditors preparing the financial statements. The Municipality will implement compensating controls where practical.

**Finding 2020-003:**

A material weakness was reported for the Municipality having an inadequate listing of fixed asset records.

**Current Status**

Ongoing: Condition still exists, see current audit finding number 2021-003. The reason for recurrence is due to cost considerations, the Municipality accepts the risks associated with an inadequate listing of fixed asset records. The Municipality will implement compensating controls where practical.

**Finding 2020-004**

The Municipality had two checks written that did not have dual signature by the finance officer and Mayor or President of the Board.

**Current Status**

Ongoing: Condition still exists, see current audit finding number 2021-004. Management is aware of their responsibility to ensure that all checks issued are properly endorsed by two authorized individuals.



**MUNICIPALITY OF HERREID  
SCHEDULE OF CURENT AUDIT FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2021**

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**SECTION I - SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS**

**Financial Statements**

- a. An unmodified opinion was issued on the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information. An adverse opinion was issued on the aggregate discretely presented component units.
- b. Material weakness's were disclosed by our audit of the financial statements. They are described in findings number 2021-001 through 2021-007.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

**Federal Awards**

- d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit finding required to be disclosed in accordance with 2 CFR 200.516(a).
- f. The federal awards tested as a major program was:  
CFDA No. 10.760 - Water and Waste Water Disposal Systems for Rural Communities
- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- h. Municipality of Herreid did not qualify as a low-risk auditee.

**MUNICIPALITY OF HERREID  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2021**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Internal Control-Related Findings - Material Weaknesses:**

**Finding 2021-001:**

**Criteria:**

To obtain adequate internal control over cash management, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process.

**Condition Found:**

A lack of proper segregation of duties existed for the duties for cash, equity, revenue, expenditures, and the payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This lack of segregation of duties has a direct effect on the cash management of the Municipality.

**Cause and Effect:**

The Municipality of Herreid has a limited number of employees who prepare all records for cash, revenues, equity, expenditures, and payroll. This lack of segregation of duties could result in inaccurate financial statement and/or misappropriations of funds.

**Recommendation:**

We recommend that Municipality officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

**Identification of Repeat Finding:**

This is the tenth consecutive audit report in which this finding has appeared.

**Views of Responsible Officials and Planned Corrective Action:**

See the Municipality's corrective action plan.

**Finding 2021-002:**

**Criteria:**

An organization's internal control structure should provide for the preparation of financial statements in accordance with other comprehensive basis of accounting - modified cash basis.

(Continued on next page)

**MUNICIPALITY OF HERREID  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2021**

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**Condition Found:**

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

**Cause and Effect:**

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

**Recommendation:**

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.

**Identification of Repeat Finding:**

This is the tenth consecutive audit report in which this finding has appeared.

**Views of Responsible Officials and Planned Corrective Action:**

See the Municipality's corrective action plan.

**Finding 2021-003:**

**Criteria:**

Fixed asset records should include comprehensive lists of all land, buildings, improvements and equipment that have a cost greater than the Municipality's capitalization policy. The Municipality's lists of such assets were found to be incomplete and lacking in supporting documentation.

**Condition Found:**

Fixed asset records were inadequate.

**Cause and Effect:**

Capital asset records did not contain adequate documentation to support the cost of capital assets, which could lead to misappropriation of assets.

**Recommendation**

The Municipality should conduct a comprehensive physical inventory of all fixed assets and update the subsidiary records accordingly. Costs (or estimated costs) of the assets should be properly documented.

(Continued on next page)

**MUNICIPALITY OF HERREID  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2021**

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**Identification of Repeat Finding:**

This is the fifth consecutive audit report in which this finding has appeared.

**Views of Responsible Officials and Planned Corrective Action:**

See the Municipality's corrective action plan.

**Finding Number 2021-004:**

**Criteria:**

As pursuant to SDCL, a Municipality is required to have dual signature on all checks or warrants drawn, except those of trust & agency. One signature is required by the finance officer and another countersignature by the Mayor or President of the Board.

**Condition Found:**

During our review of expenditures, we noted one check written that did not have dual signature by the finance officer and Mayor or President of the Board.

**Identification of Repeat Finding:**

This is the second consecutive audit report in which this finding has appeared.

**Cause and Effect:**

There is a breakdown of controls within the organization with regards to expenditures.

**Recommendation:**

We recommend that the Municipality make more effort to assure that all checks or warrants drawn, bear the signature of both the finance officer and Mayor or President of the Board.

**Views of Responsible Officials and Planned Corrective Action:**

See the Municipality's corrective action plan.

**MUNICIPALITY OF HERREID  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2021**

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**Finding Number 2021-005:**

**Criteria:**

SDCL 9-21-9 states, "Neither the governing body nor any department or office of the municipality shall add to the municipal expenditures in any fiscal year any sum in excess of the amount provided for in the annual appropriation ordinance except as otherwise specifically provided. Nor shall the amount spend for any purpose or any department exceed the total amount appropriated for such purpose or for such department in the annual appropriation ordinance for such year, except as otherwise specially provided."

**Condition Found:**

The Municipality expended money in excess of amounts budgeted without supplementing the budget as allowed by SDCL 9-21-7 in two departments in the general fund.

**Cause and Effect:**

Without amending the budget or limiting expenditures, expenditures are being made without proper authority.

**Recommendation:**

We recommend that expenditures be limited to amounts budgeted or budget supplements be made in accordance with SDCL 9-21-7 and SDCL 9-21-6.1 to allow for expenditures.

**Views of Responsible Officials and Planned Corrective Action:**

See the Municipality's corrective action plan.

**Finding Number 2021-006:**

**Criteria:**

An organization's internal control structure should ensure that the audit report is made available on their website.

**Condition Found:**

The Municipality's internal control system did not ensure that the audit report was made available on their website pursuant to SDCL 4-11-12.

**MUNICIPALITY OF HERREID  
SCHEDULE OF CURENT AUDIT FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2021**

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**Cause and Effect:**

The public is not given the opportunity to review the audit report as required.

**Recommendation:**

It is the responsibility of management and those charged with governance to make sure the audit report is made available each year.

**Views of responsible officials and corrective actions**

See the Municipality's corrective action plan.

**Finding Number 2021-007:**

**Criteria:**

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with the modified cash basis of accounting.

**Condition Found:**

While conducting our audit, we proposed material audit adjustments that would not have been identified as a result of the Municipality's existing internal controls, and therefore could have resulted in a material misstatement of the Municipality's financial statements.

**Cause and Effect:**

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

**Recommendation:**

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 and other considerations.

**Views of responsible officials and corrective actions:**

See the Municipality's corrective action plan.

# City of Herreid

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## CORRECTIVE ACTION PLAN

### **Finding Number 2021-001**

Internal control over financial reporting and compliance is not adequate.

#### **Views of responsible officials and planned corrective actions:**

The Finance Officer is the contact at this entity responsible for the corrective action plan for this comment. Due to staff size, it is not deemed feasible to adequately segregate duties. However, we are aware of this internal control weakness and intend to provide continuous monitoring in an effort to prevent, detect, or correct any matters that may result.

### **Finding Number 2021-002**

The Municipality does not have an internal control system designed to provide for the preparation of the financial statements including required footnotes and disclosures, in accordance with the modified cash basis of accounting.

#### **Views of responsible officials and planned corrective actions:**

The Finance Officer is the contact at this entity responsible for the corrective action plan for this comment. Both the City Council and management are aware of this process and have expressed their confidence in that the information is accurate and they are willing to accept this risk.

### **Finding Number 2021-003**

Capital asset records did not contain adequate documentation to support the cost of capital assets, which could lead to misappropriation of assets.

#### **Views of responsible officials and planned corrective actions:**

The Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. Management is aware of their responsibility to maintain a listing of fixed asset records and will work to maintain one in the future.

### **Finding Number 2021-004**

The Municipality had one check written that did not have dual signature by the finance officer and Mayor or President of the Board.

#### **Views of responsible officials and planned corrective actions:**

The Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. Management is aware of their responsibility for proper dual signature and will put procedures in place to ensure this happens when checks are written.

**Finding Number 2021-005**

The Municipality expended money in excess of amounts budgeted without supplementing the budget as allowed by SDCL 9-21-7 in two departments in the general fund.

**Views of responsible officials and planned corrective actions:**

The Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. The Municipality will ensure to properly monitor the budget and supplement the budget as needed.

**Finding Number 2021-006**

The Municipality does not have an internal control system designed to ensure the audit report is made available on their website as required by SDCL 4-11-12.

**Views of responsible officials and planned corrective actions:**

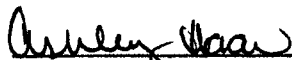
The Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. Management is aware of their responsibility for the audit report to be made available and will put procedures in place to ensure that this happens when the report is received.

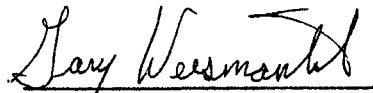
**Finding Number 2021-007**

The Municipality does not have an internal control system designed to provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with the modified cash basis of accounting.

**Views of responsible officials and planned corrective actions:**

The Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. Management is aware of their overall responsibility for the completeness of the Municipality's financial statements and the necessity for those to be complete with all material adjustments reflected and will attempt to complete all material adjustments for future financial statements.

  
\_\_\_\_\_  
Finance Officer

  
\_\_\_\_\_  
Mayor





# CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANT

## INDEPENDENT AUDITORS' REPORT

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Municipal Council  
Municipality of Herreid  
Herreid, South Dakota

### Report on the Audit of the Financial Statements

#### Adverse and Unmodified Opinions

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Municipality of Herreid, South Dakota, as of December 31, 2021, and for the year then ended, and the related notes to the financial statements, which collectively comprises the Municipality's basic financial statements as listed in the Table of Contents.

#### *Adverse Opinion on the Aggregate Discretely Presented Component Units*

In our opinion, because of the significance of the matter discussed in the Basis for Adverse and Unmodified Opinions section of our report, the accompanying modified cash basis of accounting financial statements referred to above do not present fairly the respective financial position of the aggregate discretely presented component units of the Municipality of Herreid, South Dakota, as of December 31, 2021, or the changes in financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

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

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

#### 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 Municipality 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.

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### *Matter Giving Rise to Adverse Opinion on the Aggregate Discretely Presented Component Units*

Management has not included the aggregate discretely presented component units of the Municipality of Herreid, South Dakota's, financial statements. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Municipality has not issued such reporting entity financial statements.

#### **Emphasis of Matter**

As discussed in Note 1.c. 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 opinion is 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.c.; 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 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Municipality's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Our objectives are to obtain reasonable assurance about whether the modified cash basis of accounting 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 Municipality'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 Municipality'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 modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Schedule of Expenditures of Federal Awards, which as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), the Budgetary Comparison Schedule, Schedule of Changes in Long-Term Debt, and the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset) 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, the Schedule of Expenditures of Federal Awards, the Budgetary Comparison Schedule, Schedule of Changes in Long-Term Debt, and the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset) are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2022 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 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 Municipality's internal control over financial reporting and compliance.

*Chill Bower*

Mobridge, South Dakota  
October 3, 2022

**MUNICIPALITY OF HERREID**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**DECEMBER 31, 2021**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 778,650	\$ 349,193	\$ 1,127,843
Investments	775,000	100,000	875,000
<b>TOTAL ASSETS</b>	<b>1,553,650</b>	<b>449,193</b>	<b>2,002,843</b>
<b>NET POSITION</b>			
Restricted for			
Revenue contingency bonds	-	95,016	95,016
Equipment repair and/or replacement	-	56,447	56,447
Water reserve	-	16,169	16,169
Unrestricted	1,553,650	281,561	1,835,211
<b>TOTAL NET POSITION</b>	<b>\$ 1,553,650</b>	<b>\$ 449,193</b>	<b>\$ 2,002,843</b>

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF HERREID  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

Functions/Programs Primary government	Program Revenues				Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Governmental activities								
General government	\$ 84,544	\$ 3,190	\$ 57,272	\$ -	\$ (24,082)	\$ -	\$ -	\$ (24,082)
Public safety	31,502	900	-	-	(30,602)	-	-	(30,602)
Public works	542,886	70,825	32,699	-	(439,362)	-	-	(439,362)
Health and welfare	1,558	-	-	-	(1,558)	-	-	(1,558)
Culture and recreation	76,498	10,445	-	2,439	(63,614)	-	-	(63,614)
Total governmental activities	736,988	85,360	89,971	2,439	(559,218)	-	-	(559,218)
Business-type activities								
Water	111,340	124,646	-	-	-	13,306	-	13,306
Sewer	927,336	182,847	-	723,600	-	(20,889)	-	(20,889)
Total business-type activities	1,038,676	307,493	-	723,600	-	(7,583)	-	(7,583)
Total primary government	\$ 1,775,664	\$ 392,853	\$ 89,971	\$ 726,039	\$ (559,218)	\$ (7,583)	\$ -	\$ (566,801)
General Revenues								
Taxes								
Property taxes					120,356	-	-	120,356
Sales tax					264,826	-	-	264,826
State shared revenue					4,658	-	-	4,658
Unrestricted investment earnings					6,593	722	-	7,315
Miscellaneous revenue					11,290	-	-	11,290
Total general revenues					407,723	722	-	408,445
Change in net positions					(151,495)	(6,861)	-	(158,356)
Net positions - beginning					1,705,145	456,054	-	2,161,199
Net positions - ending					\$ 1,553,650	\$ 449,193	\$ -	\$ 2,002,843

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF HERREID**  
**BALANCE SHEET - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2021**

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	General Fund	Total Governmental Funds
	<u>                    </u>	<u>                    </u>
ASSETS		
Cash and cash equivalents	\$ 778,650	\$ 778,650
Investments	775,000	775,000
	<u>                    </u>	<u>                    </u>
TOTAL ASSETS	<u>1,553,650</u>	<u>1,553,650</u>
FUND BALANCES		
Unassigned	<u>1,553,650</u>	<u>1,553,650</u>
	<u>                    </u>	<u>                    </u>
TOTAL FUND BALANCES	<u>\$ 1,553,650</u>	<u>\$ 1,553,650</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF HERREID**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Primary Government	
	General Fund	Total Governmental Funds
<b>REVENUES</b>		
Taxes		
General property taxes	\$ 120,255	\$ 120,255
General sales and use taxes	264,826	264,826
Penalties and interest on delinquent taxes	101	101
Licenses and permits	1,700	1,700
Intergovernmental revenue		
Federal grants	57,272	57,272
State grants	1,824	1,824
State shared revenue		
Bank franchise tax	1,491	1,491
Motor vehicle commercial prorate	3,381	3,381
Liquor tax reversion	3,167	3,167
Motor vehicle licenses (5%)	12,338	12,338
Local government highway and bridge fund	16,463	16,463
County shared revenue		
County road tax (25%)	517	517
Charges for goods and services		
Sanitation	70,825	70,825
Culture and recreation	10,445	10,445
Cemetery	900	900
Miscellaneous revenue		
Investment earnings	6,593	6,593
Rentals	1,490	1,490
Contributions and donations from private sources	615	615
Other	11,290	11,290
Total Revenues	<u>\$ 585,493</u>	<u>\$ 585,493</u>

**MUNICIPALITY OF HERREID**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Primary Government	
	General Fund	Total Governmental Funds
<b>EXPENDITURES</b>		
General government		
Legislative	\$ 14,536	\$ 14,536
Executive	2,226	2,226
Elections	106	106
Financial administration	59,106	59,106
Other	8,570	8,570
Public safety		
Police	24,750	24,750
Fire	5,110	5,110
Protective inspection	1,642	1,642
Public works		
Highways and streets	427,474	427,474
Sanitation	61,851	61,851
Airport	1,501	1,501
Cemeteries	52,060	52,060
Health and welfare		
Health	1,558	1,558
Culture and recreation		
Recreation	69,720	69,720
Parks	2,550	2,550
Libraries	2,228	2,228
Conservation and development		
Economic development and assistance (Industrial development)	2,000	2,000
Total expenditures	<u>736,988</u>	<u>736,988</u>
Excess of revenue over (under) expenditures	(151,495)	(151,495)
Net change in fund balances	(151,495)	(151,495)
Fund balance - beginning	<u>1,705,145</u>	<u>1,705,145</u>
Fund Balance - Ending	<u>\$ 1,553,650</u>	<u>\$ 1,553,650</u>

The accompanying notes to the basic financial statements are an integral part of this statement.



**MUNICIPALITY OF HERREID  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
DECEMBER 31, 2021**

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 97,404	\$ 251,789	\$ 349,193
Investments	-	100,000	100,000
Total current assets	<u>97,404</u>	<u>351,789</u>	<u>449,193</u>
 Total assets	<u>97,404</u>	<u>351,789</u>	<u>449,193</u>
 <b>NET POSITION</b>			
Restricted for			
Revenue bond contingency	-	95,016	95,016
Equipment repair and/or replacement	56,447	-	56,447
Water reserve	16,169	-	16,169
Unrestricted	<u>24,788</u>	<u>256,773</u>	<u>281,561</u>
 Total net position	<u>\$ 97,404</u>	<u>\$ 351,789</u>	<u>\$ 449,193</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF HERREID**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**- MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
OPERATING REVENUE			
Charges for goods and services	\$ 124,646	\$ 182,847	\$ 307,493
Total operating revenue	<u>124,646</u>	<u>182,847</u>	<u>307,493</u>
OPERATING EXPENSES			
Personal services	17,634	32,970	50,604
Other current expense	8,643	22,213	30,856
Materials	76,426	-	76,426
Total operating expenses	<u>102,703</u>	<u>55,183</u>	<u>157,886</u>
Operating income	<u>21,943</u>	<u>127,664</u>	<u>149,607</u>
NONOPERATING REVENUES (EXPENSES)			
Grants	-	723,600	723,600
Investment earnings	-	722	722
Capital assets	-	(751,749)	(751,749)
Debt service principle	(4,432)	(61,206)	(65,638)
Interest expense and fiscal charges	(4,205)	(59,198)	(63,403)
Total nonoperating expenses	<u>(8,637)</u>	<u>(147,831)</u>	<u>(880,068)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS	<u>13,306</u>	<u>(20,167)</u>	<u>(6,861)</u>
CHANGE IN NET POSITION	13,306	(20,167)	(6,861)
NET POSITION - BEGINNING	<u>84,098</u>	<u>371,956</u>	<u>456,054</u>
NET POSITION - ENDING	<u>\$ 97,404</u>	<u>\$ 351,789</u>	<u>\$ 449,193</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF HERREID  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 124,646	\$ 182,847	\$ 307,493
Payments to employees for services	(17,634)	(32,970)	(50,604)
Payments to suppliers of goods and services	(85,069)	(22,213)	(107,282)
Net cash provided (used) by operating activities	<u>21,943</u>	<u>127,664</u>	<u>149,607</u>
<b>CASH FLOWS FROM (FOR) NONCAPITAL FINANCING ACTIVITIES</b>			
Operating Subsidies	-	723,600	723,600
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>723,600</u>	<u>723,600</u>
<b>CASH FLOWS FROM (FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital improvements	-	(751,749)	(751,749)
Principal paid on capital debt	(4,432)	(61,206)	(65,638)
Interest paid on capital debt	(4,205)	(59,198)	(63,403)
Net cash used by capital and related financing activities	<u>(8,637)</u>	<u>(872,153)</u>	<u>(880,790)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earnings	-	722	722
Net cash provided by investing activities	<u>-</u>	<u>722</u>	<u>722</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>13,306</u>	<u>(20,167)</u>	<u>(6,861)</u>
<b>CASH AND INVESTMENTS AT BEGINNING OF YEAR</b>	<u>84,098</u>	<u>371,956</u>	<u>456,054</u>
<b>CASH AND INVESTMENTS AT END OF YEAR</b>	<u>\$ 97,404</u>	<u>\$ 351,789</u>	<u>\$ 449,193</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income	\$ 21,943	\$ 127,664	\$ 149,607

The accompanying notes to the basic financial statements are an integral part of this statement.

**MUNICIPALITY OF HERREID  
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021  
(See Independent Auditors' Report)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.c, these 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 Municipality of Herreid (Municipality), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Municipality 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 Municipality. The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

The Housing and Redevelopment Commission of the Municipality of Herreid, South Dakota (Commission), is a proprietary fund-type, discretely-presented component unit. 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 low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission.

The Municipality has created a Housing and Redevelopment Commission under the authority of South Dakota Codified Law 11-7-7. The financial information of the component unit is available upon request from the Herreid Housing and Redevelopment Commission, Herreid, South Dakota.

**NOTES TO FINANCIAL STATEMENTS - Page 2**  
**(See Independent Auditors' Report)**

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*b. Basis of Presentation*

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. 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 Municipality and for each function of the Municipality's governmental activities. Direct expenses and 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 reporting entity 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 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 Municipality or it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and;
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or;
- c. 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 Municipality financial reporting entity are described below within their respective fund types:

**Governmental Funds**

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

**NOTES TO FINANCIAL STATEMENTS - Page 3**  
**(See Independent Auditors' Report)**

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**Proprietary Funds**

Enterprise Funds - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods and services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit-even if that government is not expected to make any payments-is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from revenues of the activity.)

b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.

c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDL 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 system and related facilities. (SDL 9-48-2 ) This is a major fund.

*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.

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

**Measurement Focus**

**Government-wide Financial Statements**

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

**NOTES TO FINANCIAL STATEMENTS - Page 4**  
**(See Independent Auditors' Report)**

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Fund Financial Statements

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

**Basis of Accounting**

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the Municipality in these financial statements is:

- a. Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

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

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

*d. Deposits and Investments*

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

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

**NOTES TO FINANCIAL STATEMENTS - Page 5**  
**(See Independent Auditors' Report)**

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*e. Long-Term Liabilities*

Long-term liabilities include, but are not limited to Revenue Bonds and Revolving Funding loans.

As discussed in Note 1c. above the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, and component unit activities are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the Municipality. The Municipality does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The Municipality has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

*f. Program Revenues*

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry, as a whole. Program revenues are classified into three categories:

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.

*g. Proprietary Funds Revenue and Expense Classifications*

In the proprietary fund's Statement of Revenues, Expenses and Changes in 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.



**NOTES TO FINANCIAL STATEMENTS - Page 6**  
**(See Independent Auditors' Report)**

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*h. Cash and Cash Equivalents*

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

*i. Capital Assets*

Capital assets include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating/amortizing those assets where appropriate so any capital assets owned by the Municipality and the related depreciation/amortization are not reported on the financial statements of the Municipality.

*j. Equity Classifications*

Government-wide Statements

Equity is classified as Net Position and is displayed in two components:

a: 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.

b: Unrestricted Net Position – All other net position that do not meet the definition of Restricted Net Position.

**NOTES TO FINANCIAL STATEMENTS - Page 7**  
**(See Independent Auditors' Report)**

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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.

*k. Application of Net Positions*

It is the Municipality's policy to first use restricted Net Position, prior to the use of unrestricted Net Position, when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

*l. Fund Balance Classification and Policies and Procedures*

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

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Municipal Council or Finance Officer.

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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

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

**NOTE 2 - IMPLEMENTATION OF NEW ACCOUNTING STANDARD**

In 2021, the Municipality implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. This statement improves accounting and financial reporting for leases; enhances the comparability of financial statements between governments; and also enhances the relevance, reliability, and consistency of information about the leasing activities of governments. The Municipality prepared and presented the financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; therefore, the implementation of this standard did not affect beginning net position or beginning fund balances.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The Municipality 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 Municipality's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.11 and 9-22-6.2 and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits municipality 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 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 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, 2021, the Municipality did not have any investments. The investments reported in the financial statements consist only of Certificates of Deposit.

Interest Rate Risk - The Municipality 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.

Credit Risk - State law limits eligible investments for the Municipality of Herreid. The Municipality has no investment policy that would further limit its investment choices.

Custodial Credit Risk - The risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk. As of December 31, 2021, none of the Municipality's deposits were exposed to custodial credit risk.

**NOTES TO FINANCIAL STATEMENTS - Page 9**  
**(See Independent Auditors' Report)**

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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 Municipality's policy is to credit all income to the fund making the investment.

**NOTE 4 - 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 Municipality is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the Municipality.

**NOTE 5 - PENSION PLAN**

**Plan Information:**

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 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 survivors 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 <http://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 three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

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

**NOTES TO FINANCIAL STATEMENTS - Page 10**  
**(See Independent Auditors' Report)**

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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 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, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater 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.

**Contribution:**

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, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2021, 2020, and 2019 were \$5,732, \$5,704 and \$5,793 respectively, equal to the required contributions each year.

**NOTES TO FINANCIAL STATEMENTS - Page 11**  
**(See Independent Auditors' Report)**

**Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:**

At June 30, 2021, SDRS is 105.53% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period ending June 30, 2021 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate share of pension liability	\$ 347,018	\$ 265,321	\$ 612,339
Less proportionate share net pension restricted for pension benefits	366,184	279,974	646,158
Proportionate share of net pension liability (asset)	<u>\$ (19,166)</u>	<u>\$ (14,653)</u>	<u>\$ (33,819)</u>

The net pension asset was measured as of June 30, 2021 and the total pension asset used to calculate the net pension asset was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the Municipality's proportion was 0.0044160%, which is an increase of 0.0002085% from its proportion measured as of June 30, 2020.

**Actuarial Assumptions:**

The total pension asset in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
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. This is composed of an average inflation rate of 2.25% and real returns of 4.25%
Future COLAs	2.25%

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

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period of July 1, 2011, to June 30, 2016.

**NOTES TO FINANCIAL STATEMENTS - Page 12**  
**(See Independent Auditors' Report)**

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, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	LT Expected Real Rate of Return
Global Equity	58.00%	4.30%
Fixed Income	30.00%	1.60%
Real Estate	10.00%	4.60%
Cash	2.00%	0.90%
Total	100%	

**Discount Rate:**

The discount rate used to measure the total pension 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 from 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 asset.

**Sensitivity of liability (asset) to changes in the discount rate:**

The following presents the Municipality's proportionate share of net pension asset calculated using the discount rate of 6.50%, as well as what the Municipality's proportionate share of the net pension 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
Municipality's proportionate share of the net pension (asset) liability	\$ 54,761	\$ (33,819)	\$ (105,726)

**Pension Plan Fiduciary Net Position:**

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

**NOTE 6 - RISK MANAGEMENT**

The Municipality 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 year ended December 31, 2021, the Municipality managed its risks as follows:

*Liability Insurance*

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

*Workmen's Compensation*

The Municipality purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

*Unemployment Benefits*

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

**NOTE 7 - LITIGATION**

At December 31, 2021 the Municipality was not involved in any litigation.

**NOTE 8 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.



**SUPPLEMENTARY INFORMATION**

**MUNICIPALITY OF HERREID  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes				
General property tax	\$ 121,549	\$ 121,549	\$ 120,255	\$ (1,294)
General sales and use tax	225,000	225,000	264,826	39,826
Amusement taxes	100	100	-	(100)
Penalties and interest on delinquent taxes	200	200	101	(99)
Licenses and permits	1,600	1,600	1,700	100
Intergovernmental revenue				
Federal grants	261,000	261,000	57,272	(203,728)
State grants	16,100	-	1,824	1,824
State shared revenue				
Bank franchise tax	1,800	1,800	1,491	(309)
Motor vehicle commercial prorate	2,000	2,000	3,381	1,381
Liquor tax reversion	3,000	3,000	3,167	167
Motor vehicle licenses (5%)	12,000	12,000	12,338	338
Local government highway and bridge fund	16,000	16,000	16,463	463
County shared revenue				
County road tax (25%)	500	500	517	17
Charges for goods and services				
Sanitation	69,000	69,000	70,825	1,825
Culture and recreation	11,150	11,150	10,445	(705)
Cemetery	100	100	900	800
Miscellaneous revenue				
Investment earnings	9,000	9,000	6,593	(2,407)
Rentals	2,000	2,000	1,490	(510)
Contributions and donations				
from private sources	250,200	250,200	615	(249,585)
Other	2,150	2,150	11,290	9,140
<b>Total revenue</b>	<b>\$ 1,004,449</b>	<b>\$ 988,349</b>	<b>\$ 585,493</b>	<b>\$ (402,856)</b>

**MUNICIPALITY OF HERREID  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES</b>				
General government				
Legislative	\$ 23,700	\$ 23,700	\$ 14,536	\$ 9,164
Contingency	20,000	20,000	-	
Amount transferred		-	-	20,000
Executive	3,200	3,200	2,226	974
Elections	900	900	106	794
Financial administration	64,250	64,250	59,106	5,144
Other	18,100	18,100	8,570	9,530
Public safety				
Police	26,000	26,000	24,750	1,250
Fire	29,600	29,600	5,110	24,490
Protective Inspection	5,000	5,000	1,642	3,358
Public works				
Highways and streets	155,949	409,933	427,474	(17,541)
Cemetery	16,100	16,100	52,060	(35,960)
Airport	1,700	1,700	1,501	199
Sanitation	68,200	68,200	61,851	6,349
Health and welfare				
Health	3,600	3,600	1,558	2,042
Culture and recreation				
Recreation	800,800	807,089	69,720	737,369
Parks	5,300	5,300	2,550	2,750
Libraries	8,050	8,050	2,228	5,822
Conservation and development				
Economic development and assistance (industrial development)	4,000	4,000	2,000	2,000
Total Expenditures	1,254,449	1,514,722	736,988	777,734
Excess revenue over/under expenditures	(250,000)	(526,373)	(151,495)	374,878
Other financing sources/(uses)				
Transfers in	250,000	250,000	-	250,000
Total other financing sources (uses)	250,000	250,000	-	250,000
Net change in fund balances	-	(276,373)	(151,495)	124,878
Fund balance - beginning	1,705,145	1,705,145	1,705,145	-
Fund balance - ending	\$ 1,705,145	\$ 1,428,772	\$ 1,553,650	\$ 124,878

**MUNICIPALITY OF HERREID**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH**  
**MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

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**NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING**

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Municipal Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Municipal Commission, 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 percent of the total municipal budget and may be transferred by resolution of the Municipal Commission 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 Municipal Commission.

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 and special revenue funds.

The Municipality did not encumber any amounts at December 31, 2021.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and major special revenue funds.

**MUNICIPALITY OF HERREID**

**NOTES TO SUPPLEMENTARY INFORMATION - Page 2**

**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH  
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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**NOTE 2 - OTHER COMPREHENSIVE BASIS OF ACCOUNTING MODIFIED CASH  
BASIS/BUDGETARY ACCOUNTING BASIS DIFFERENCES**

The financial statements prepared in conformity with USGAAP applied within the context of 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 Statements of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI 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.

**MUNICIPALITY OF HERREID**  
**SCHEDULE OF CHANGES IN LONG-TERM DEBT**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

Indebtedness	Long-Term Debt 1/1/2021	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/2021
Enterprise Long-Term Debt				
USDA Rural Development Loan #93-03	\$ 211,963	\$ -	\$ 7,149	\$ 204,814
USDA Rural Development Loan #92-04	174,337	-	7,686	166,651
SRF #461252-01 Wastewater Loan	586,688	-	17,462	569,226
USDA Rural Development Loan #92-05	1,718,154	-	30,065	1,688,089
USDA Rural Development Loan #92-07	186,690	-	3,275	183,415
<b>Total</b>	<b>\$ 2,877,832</b>	<b>\$ -</b>	<b>\$ 65,637</b>	<b>\$ 2,812,195</b>

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

	2021	2020	2019	2018	2017	2016	2015
Municipality's proportion of the net pension liability (asset)	0.004416000%	0.004207500%	0.004128700%	0.004094300%	0.004154800%	0.004152100%	0.004031300%
Municipality's proportionate share of net pension liability (asset)	\$ (33,819)	\$ (183)	\$ (437)	\$ (95)	\$ (376)	\$ 14,025	\$ (17,098)
Municipality's covered-employee payroll	\$ 100,225	\$ 92,343	\$ 89,583	\$ 86,308	\$ 84,422	\$ 78,951	\$ 73,593
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-33.74%	-0.20%	-0.49%	-0.11%	-0.45%	17.76%	-23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	105.53%	100.04%	100.09%	100.02%	100.10%	96.89%	104.10%

\* 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. Until a full 10-year trend is compiled, the Municipality will present information for those years for which information is available.

**MUNICIPALITY OF HERREID**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION**  
**LIABILITY (ASSET) AND SCHEDULE OF PENSION CONTRIBUTIONS**

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**Changes from Prior Valuation:**

The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

**Benefit Provision Changes:**

Legislation enacted in 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS

**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% (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%. That condition existed as of June 30, 2020 and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.41%. For this June 30, 2021 Actuarial Valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

The change in the COLA assumption increased the Actuarial Accrued Liability by \$1,135 million, or 8.9% of the Actuarial Accrued Liability based on the 1.41% 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 approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

**Actuarial Method Changes:**

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



**MUNICIPALITY OF HERREID  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures 2021</u>
<b>US Department of Agriculture:</b>			
Waste and Water Disposal Systems for Rural Communities (Note 3)	10.760	N/A	<u>\$723,600</u>
<b>Total US Department of Agriculture</b>			<u>\$723,600</u>
<b>US Department of Treasury:</b>			
Coronavirus Relief Fund	21.019	N/A	<u>\$57,272</u>
<b>Total US Department of Treasury</b>			<u>\$57,272</u>
<b>GRAND TOTAL</b>			<u><u>\$780,872</u></u>

**Note 1: Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Municipality under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Municipality.

**Note 2: Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Municipality has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3: Federal Loan Program**

The Municipality is eligible to draw \$2,096,000 from the Water and Waste Water Disposal Systems for Rural Communities Loan. The beginning balance for the year ended December 31, 2021 was \$1,904,844. During the year ended December 31, 2021, the Municipality made payments in the amount of \$33,340.

The Municipality had the following loan balances outstanding at December 31, 2021. These loan balances outstanding which have continuing compliance requirements are also included in the federal expenditures presented in the Schedule.

<u>Cluster/Program Title</u>	<u>Federal Assistance Living Number</u>	<u>Amount Outstanding</u>
Water and Waste Water Disposal Loan	10.760	\$ 1,871,504