

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

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CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

Municipal Council
Municipality of Leola
Leola, 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, each major fund and the aggregate remaining fund information of the Municipality of Leola, South Dakota, (Municipality) 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 July 5, 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, and 2021-005 to be material weaknesses.

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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, and contracts, 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 instances 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. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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.

Calvin Bauer

Mobridge, South Dakota

July 5, 2022

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2021**

PRIOR OTHER AUDIT FINDINGS

Finding 2020-001

The Municipality has an inadequate listing of fixed asset records. This finding has not been corrected and is restated as current finding 2021-001.

Finding 2020-002

A lack of proper segregation of duties existed for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss public assets. The finding continues to exist, see 2021-002.

Finding 2020-003

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. This finding continues to exist, see 2021-003.

Finding 2020-004

The Municipality lacks internal controls systems to ensure that all material adjustments have been completed. This finding continues to exist, see 2021-004.

Finding 2020-005

The Municipality expended money in excess of amounts budgets without supplementing the budget as allowed by SDCL 9-21-7. This finding continues to exist, see 2021-005.

CURRENT AUDIT FINDINGS

Internal Control-Related Findings - Material Weaknesses

Finding 2021-001

Criteria

The Equipment and Real Property compliance requirement requires organizations to maintain an adequate equipment and property management system. 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.

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2021**

Condition Found

Fixed asset records are inadequate.

Identification of Repeat Finding

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

Cause/Effect

Inaccurate financial statement and/or misappropriations of funds could result from inadequate maintenance of records.

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.

Views of Responsible Officials and Planned Corrective Action

The Municipality finance officer, Sondra Waltman, is the contact person responsible for the corrective action plan for this comment. The Municipality agrees with the finding and has started to work on updating their records.

Finding 2021-002

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.

Identification of Repeat Finding

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

MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2021

Cause/Effect

The Municipality of Leola, 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.

Views of Responsible Officials and Planned Corrective Action

The Municipality finance officer, Sondra Waltman, is the contact person responsible for the corrective action plan for this comment. The Municipality agrees with this finding and is willing to accept the risk. The Municipality is continuing its work on correcting this deficiency and implementing compensating controls where possible and practical.

Finding 2021-003

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.

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.

Identification of Repeat Finding

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

Cause/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.

MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2021

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.

Views of Responsible Officials and Planned Corrective Action

The Municipality's finance officer, Sondra Waltman, is the contact person responsible for the corrective action plan for this comment. The Municipality is continuing its work on correcting this deficiency.

Finding 2021-004

Criteria

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

Condition Found

During the course of our engagement, 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.

Identification of Repeat Finding

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

Cause/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 the cost of other considerations.

**MUNICIPALITY OF LEOLA
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2021**

Views of Responsible Officials and Planned Corrective Action

The Municipality's finance officer, Sondra Waltman, is the contact person responsible for the corrective action plan for this comment. The Municipality of Leola is continuing its work in correcting this deficiency.

Finding 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.

Identification of Repeat Finding

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

Cause/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

The Municipality's finance officer, Sondra Waltman, is the contact person responsible for the corrective action plan for this comment. The Municipality of Leola is working to more carefully follow the budgetary guidelines prescribed by SDCL.



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Municipal Council
Municipality of Leola
Leola, 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 Leola, 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 Leola, 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 Leola 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.

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 Leola, 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 Budgetary Comparison Schedule, Combining Statements, Schedule of Changes in Long-Term Debt and the Pension Schedules 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 Budgetary Comparison Schedules, Combining Statements, Schedule of Changes in Long-Term Debt, and Pension Schedules 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 July 5, 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 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.

Carroll Bauer

Mobridge, South Dakota
July 5, 2022

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 178,031	\$ 206,164	\$ 384,195
Restricted Assets			
Cash and cash equivalents	68,657	48,252	116,909
TOTAL ASSETS	246,688	254,416	501,104
NET POSITION:			
Restricted for			
Library Trust Fund	3,333	-	3,333
Revolving Loan Fund	68,657	-	68,657
Revenue Contingency Bonds	-	48,252	48,252
Unrestricted	174,698	206,164	380,862
TOTAL NET POSITION	\$ 246,688	\$ 254,416	\$ 501,104

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

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

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General government	\$ 179,213	\$ 7,154	\$ 120,974	\$ (51,085)	\$ -	\$ (51,085)
Public safety	54,618	-	-	(54,618)	-	(54,618)
Public works	107,326	-	-	(107,326)	-	(107,326)
Health and welfare	58	-	-	(58)	-	(58)
Culture and recreation	129,661	3,972	-	(125,689)	-	(125,689)
Conservation and development	7,459	-	-	(7,459)	-	(7,459)
Total governmental activities	478,335	11,126	120,974	(346,235)	-	(346,235)
Business-type activities						
Water	539,190	158,632	332,234	-	(48,324)	(48,324)
Sewer	79,999	113,459	-	-	33,460	33,460
Total business-type activities	619,189	272,091	332,234	-	(14,864)	(14,864)
Total primary government	\$ 1,097,524	\$ 283,217	\$ 453,208	\$ (346,235)	\$ (14,864)	\$ (361,099)
General Revenues						
Taxes						
Property taxes				257,720	-	257,720
Sales tax				115,817	-	115,817
State shared revenue				32,680	-	32,680
Debt issued				-	48,522	48,522
Unrestricted investment earnings				191	-	191
Miscellaneous revenue				44,716	2,203	46,919
Total general revenues				451,124	50,725	501,849
Change in net position				104,889	35,861	140,750
Net position - beginning				141,799	218,555	360,354
Net position - ending				\$ 246,688	\$ 254,416	\$ 501,104

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

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

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	174,698	3,333	\$ 178,031
Restricted cash	-	68,657	68,657
TOTAL ASSETS	174,698	71,990	246,688
FUND BALANCES			
Restricted	-	71,990	71,990
Unassigned	174,698	-	174,698
TOTAL FUND BALANCES	\$ 174,698	\$ 71,990	\$ 246,688

MUNICIPALITY OF LEOLA**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	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes			
General property taxes	\$ 256,617	\$ -	\$ 256,617
General sales and use taxes	115,817	-	115,817
Penalties and interest on delinquent taxes	1,103	-	1,103
Licenses and permits	3,954	-	3,954
Intergovernmental revenue			
Federal grants	70,974	-	70,974
State grants	50,000	-	50,000
State shared revenue			
Bank franchise tax	2,047	-	2,047
Motor vehicle commercial prorate	2,867	-	2,867
Liquor tax reversion	3,305	-	3,305
Motor vehicle licenses (5%)	8,534	-	8,534
Local government highway and bridge fund	15,927	-	15,927
Charges for goods and services			
Culture and recreation	3,972	-	3,972
Miscellaneous revenue			
Investment earnings	172	19	191
Rentals	3,200	-	3,200
Other	11,020	33,171	44,191
Total revenues	<u>\$ 549,509</u>	<u>\$ 33,190</u>	<u>\$ 582,699</u>

MUNICIPALITY OF LEOLA

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	Other Governmental Funds	Total Governmental Funds
EXPENDITURES			
General government			
Executive	\$ 41,231	\$ -	\$ 41,231
Elections	1,023	-	1,023
Financial administration	66,861	-	66,861
Other	70,098	-	70,098
Public safety			
Police	45,000	-	45,000
Protective inspection	9,618	-	9,618
Public works			
Highways and streets	100,940	-	100,940
Sanitation	6,386	-	6,386
Health and welfare			
Health	58	-	58
Culture and recreation			
Recreation	73,344	-	73,344
Parks	39,296	-	39,296
Libraries	14,987	2,034	17,021
Conservation and development			
Economic development and assistance (Industrial development)	2,459	-	2,459
Economic opportunity	5,000	-	5,000
Total expenditures	<u>476,301</u>	<u>2,034</u>	<u>478,335</u>
Excess of revenue over (under) expenditures	73,208	31,156	104,364
Other financing sources (uses)			
Sale of municipal property	525	-	525
Total other financing sources	<u>525</u>	<u>-</u>	<u>525</u>
Net change in fund balances	73,733	31,156	104,889
Fund balance - beginning	<u>100,965</u>	<u>40,834</u>	<u>141,799</u>
Fund balance - ending	<u>\$ 174,698</u>	<u>\$ 71,990</u>	<u>\$ 246,688</u>

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

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

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current assets			
Cash and cash equivalents	\$ 17,772	\$ 188,392	\$ 206,164
Restricted cash	-	48,252	48,252
TOTAL ASSETS	<u>17,772</u>	<u>236,644</u>	<u>254,416</u>
NET POSITION:			
Restricted for			
Revenue bond contingency	-	48,252	48,252
Unrestricted	<u>17,772</u>	<u>188,392</u>	<u>206,164</u>
TOTAL NET POSITION	<u>\$ 17,772</u>	<u>\$ 236,644</u>	<u>\$ 254,416</u>

MUNICIPALITY OF LEOLA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN 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	\$ 158,632	\$ 113,459	\$ 272,091
Total operating revenue	158,632	113,459	272,091
OPERATING EXPENSES			
Personal services	19,976	30,791	50,767
Other current expense	12,743	446	13,189
Materials	100,863	510	101,373
Capital assets	395,518	-	395,518
Total Operating Expenses	529,100	31,747	560,847
Operating income (loss)	(370,468)	81,712	(288,756)
NONOPERATING REVENUES (EXPENSES)			
Grants	332,234	-	332,234
Long-term debt issued	48,522	-	48,522
Debt service (principal)	(4,677)	(26,416)	(31,093)
Interest expense and fiscal charges	(5,413)	(21,836)	(27,249)
Sale of municipal property	2,203	-	2,203
Total nonoperating revenues (expenses)	372,869	(48,252)	324,617
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS	2,401	33,460	35,861
CHANGE IN NET POSITION	2,401	33,460	35,861
NET POSITION - BEGINNING	15,371	203,184	218,555
NET POSITION - ENDING	\$ 17,772	\$ 236,644	\$ 254,416

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

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

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 158,632	\$ 113,459	\$ 272,091
Payments to employees for services	(19,976)	(30,791)	(50,767)
Payments to suppliers of goods and services	(509,124)	(956)	(510,080)
Net cash (used)/provided by operating activities	(370,468)	81,712	(288,756)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies	332,234	-	332,234
Net cash (used)/provided by noncapital financing activities	332,234	-	332,234
CASH FLOWS FROM (FOR) CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	48,522	-	48,522
Sale of capital assets	2,203	-	2,203
Principal paid on capital debt	(4,677)	(26,416)	(31,093)
Interest paid on capital debt	(5,413)	(21,836)	(27,249)
Net cash (used)/provided by capital and related financing activities	40,635	(48,252)	(7,617)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,401	33,460	35,861
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,371	203,184	218,555
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 17,772	\$ 236,644	\$ 254,416
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income/(loss)	\$ (370,468)	\$ 81,712	\$ (288,756)

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

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 Leola (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 Leola, 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 Leola Housing and Redevelopment Commission, Leola, South Dakota.

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:

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

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.

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

The Special Revenue funds are not considered major funds: Library Trust Fund and the Revolving Loan Fund. These funds are reported on the fund financial statements as "Other Governmental Funds".

Proprietary Funds

Enterprise Fund Types - Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

(a) An 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 the 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.

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(See Independent Auditors' Report)

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.

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.

Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

- a. Recording long-term investments (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.

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

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.

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 State 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 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 with in 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.

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:

a: 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.

b: 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.

c: 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.

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

Under the modified cash basis of accounting, capital assets are recorded as an expense when they result from cash transactions. The accounting treatment for property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary to match the cost with the program that benefits from the use of the 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 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 those assets where appropriate so any capital assets owned by the Municipality and the related depreciation 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 component:

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

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

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 - 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.

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. The Municipality has no investment policy that would further limit its investment choices.

Custodial Credit Risk - The risk that, in the even 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.

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 3 - PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payables 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 4 - 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.

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(See Independent Auditors' Report)

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.

CONTRIBUTIONS:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% 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 calendar years ended December 31, 2021, 2020, and 2019, equal to the required contributions each year, were \$6,280, \$4,278, and \$5,879, respectively.

PENSION ASSETS, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES TO PENSIONS:

At June 30, 2021, SDRS is 105.33% 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 City as of this measurement period ending June 30, 2021 are as follows:

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(See Independent Auditors' Report)

	Governmental Activities	Business- Type Activities	Total
Proportionate share of total pension liability	\$ 388,653	\$ 195,676	\$ 584,329
Less proportionate share of net position restricted for pension benefits	410,118	206,483	616,601
Proportionate share of net pension liability (asset)	\$ (21,465)	\$ (10,807)	\$ (32,272)

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 0.0042140%, which is a increase of 0.0005641% 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.

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(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	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	0.9%
Total	100.00%	

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 City's proportionate share of net pension asset calculated using the discount rate of 6.50%, as well as what the City'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 liability (asset)	\$ 52,256	\$ (32,272)	\$ (100,889)

PENSION PLAN FIDUCIARY NET POSITION:

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

NOTE 5 - 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.

Employee Health Insurance

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Workmen's Compensation

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

The Municipality does not carry additional insurance to cover claims in excess of the upper limit.

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 6 - LITIGATION

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

NOTE 7 - SUBSEQUENT EVENTS

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

SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
REVENUES				
Taxes				
General property tax	\$ 261,019	\$ 261,019	\$ 256,617	\$ (4,402)
General sales and use tax	100,500	100,500	115,817	15,317
Amusement taxes	36	36	-	(36)
Penalties and interest on delinquent t	400	400	1,103	703
Licenses and permits	4,000	4,000	3,954	(46)
Intergovernmental revenue				
Federal grants	30,000	30,000	70,974	40,974
State grants	-	-	50,000	50,000
State shared revenue				
Bank franchise tax	1,300	1,300	2,047	747
Motor vehicle commercial prorate	3,000	3,000	2,867	(133)
Liquor tax reversion	2,000	2,000	3,305	1,305
Motor vehicle licenses (5%)	7,600	7,600	8,534	934
Local government highway and bridge fund	14,000	14,000	15,927	1,927
Other	100	100	-	(100)
County shared revenue				
County road tax (25%)	2,000	2,000	-	(2,000)
Charges for goods and services				
General government	100	100	-	(100)
Culture and recreation	3,600	3,600	3,972	372
Miscellaneous revenue				
Investment earnings	150	150	172	22
Rentals	2,225	2,225	3,200	975
Contributions and donations from private sources	100	100	-	(100)
Other	25	25	11,020	10,995
Total revenue	\$ 432,155	\$ 432,155	\$ 549,509	\$ 117,354

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

	Budgeted Amounts		Actual Amounts		Variance with
	Original	Final	(Budgetary Basis)		Final Budget
EXPENDITURES					
General government					
Contingency	\$ 29,835	\$ 29,835	\$ -	\$ -	
Amount transferred	-	(17,123)	-		12,712
Executive	36,500	38,300	41,231		(2,931)
Elections	1,000	1,023	1,023		-
Financial administration	81,750	81,750	66,861		14,889
Other	89,000	89,000	70,098		18,902
Public safety					
Police	45,500	45,500	45,000		500
Fire	500	500	-		500
Protection and inspection	5,600	20,900	9,618		11,282
Public works					
Highways and streets	147,600	147,600	100,940		46,660
Sanitation	8,700	8,700	6,386		2,314
Health and welfare					
Health	2,900	2,900	58		2,842
Culture and recreation					
Recreation	72,400	72,400	73,344		(944)
Parks	64,200	64,200	39,296		24,904
Libraries	17,600	17,600	14,987		2,613
Historical Preservation	100	100	-		100
Conservation and development					
Urban redevelopment and housing	9,650	9,650	-		9,650
Economic development and assistance (industrial development)	3,700	3,700	2,459		1,241
Economic opportunity	10,000	10,000	5,000		5,000
Total Expenditures	626,535	626,535	476,301		150,234
Excess revenue over/under expenditures	(194,380)	(194,380)	73,208		267,588
Other financing sources/(uses)					
Sale of municipal property	-	-	525		525
Total other financing sources (uses)	-	-	525		525
Net change in fund balances	(194,380)	(194,380)	73,733		268,113
Fund balance - beginning	100,965	100,965	100,965		-
Fund balance - ending	\$ (93,415)	\$ (93,415)	\$ 174,698	\$ 268,113	

MUNICIPALITY OF LEOLA

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 YEARS ENDED DECEMBER 31, 2021**

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 Governing Board/Municipality Commission introduces the annual appropriation ordinance for ensuing fiscal year.
2. After adoption by the Governing Board/Municipality 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 Governing Board/Municipality 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 Governing Board/Municipality 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, special revenue funds and capital projects 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 LEOLA

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 YEARS ENDED DECEMBER 31, 2021**

**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 Statement 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 LEOLA
COMBINING BALANCE SHEET - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Revolving</u>	<u>Library</u>	<u>Nonmajor</u>
	<u>Fund</u>	<u>Trust</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Funds</u>
ASSETS:			
Cash and Cash Equivalents	\$ -	\$ 3,333	\$ 3,333
Restricted Cash and Cash Equivalents	68,657	-	68,657
TOTAL ASSETS	<u>68,657</u>	<u>3,333</u>	<u>71,990</u>
FUND BALANCES:			
Restricted	<u>68,657</u>	<u>3,333</u>	<u>71,990</u>
TOTAL FUND BALANCES	<u>\$ 68,657</u>	<u>\$ 3,333</u>	<u>\$ 71,990</u>

MUNICIPALITY OF LEOLA
BALANCES - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Special Revenue Funds		Total
	Revolving	Library	Nonmajor
	Fund	Trust	Governmental
	Fund	Fund	Funds
Revenues:			
Miscellaneous Revenue:			
Investment Earnings	\$ 19	\$ -	\$ 19
Other	32,548	623	33,171
Total Revenue	<u>\$ 32,567</u>	<u>\$ 623</u>	<u>\$ 33,190</u>
Expenditures:			
Culture and Recreation:			
Libraries	-	2,034	2,034
Total Expenditures	<u>\$ -</u>	<u>\$ 2,034</u>	<u>\$ 2,034</u>
Excess of Revenues Over (Under)			
Expenditures	32,567	(1,411)	31,156
Net Change in Fund Balances	32,567	(1,411)	31,156
FUND BALANCE - BEGINNING	<u>36,090</u>	<u>4,744</u>	<u>40,834</u>
FUND BALANCE - ENDING	<u><u>\$ 68,657</u></u>	<u><u>\$ 3,333</u></u>	<u><u>\$ 71,990</u></u>

MUNICIPALITY OF LEOLA
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)	0.0042140%	0.0036499%	0.0046248%	0.0048110%	0.0050095%	0.0051493%	0.0047004%
Municipality's proportionate share of net pension liability (asset) \$	(32,272)	\$ (159)	\$ (490)	\$ (112)	\$ (455)	\$ 17,394	\$ (19,936)
Municipality's covered-employee payroll	\$ 95,627	\$ 80,105	\$ 98,896	\$ 100,010	\$ 101,782	\$ 97,914	\$ 85,825
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.75%	0.20%	0.50%	-0.11%	-0.45%	17.76%	-23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	105.52%	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 of previous fiscal year. Until a full 10-year trend is compiled, the County/Municipality will present information for those years for which information is available.

MUNICIPALITY OF LEOLA
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

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 LEOLA
SCHEDULE OF CHANGES IN LONG-TERM DEBT
YEAR ENDED DECEMBER 31, 2021

Indebtedness	Long-Term Debt 01/01/2021	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/2021
BUSINESS TYPE LONG-TERM DEBT:				
Drinking Water State Revolving Funding Loan	\$ 227,477	\$ 322,192	\$ 279,082	\$ 270,587
USDA Rural Development Water & Waste Water Loan	1,103,913	-	26,416	1,077,497
TOTAL	<u>\$ 1,331,390</u>	<u>\$ 322,192</u>	<u>\$ 305,498</u>	<u>\$ 1,348,084</u>