

City of Castlewood

**Independent Auditor's Report
and Financial Statements**

**For the Year Ended
December 31, 2021**

City of Castlewood

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**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***

To the Council Members
City of Castlewood, 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 of accounting financial statements of the governmental activities, the business-type activities and each major fund of the City of Castlewood, South Dakota (City), as of December 31, 2021, and for the year then ended, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated September 15, 2023.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’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 and 2021-002 to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit. The City's response to the findings identified in our audit are described in the Schedule of Current Audit Findings. The City's response was not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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.



Huron, South Dakota
September 15, 2023

City of Castlewood
Schedule of Prior Audit Findings
For the Year Ended December 31, 2021

Schedule of Prior Audit Findings

Internal Control-Related Findings – Material Weaknesses:

Finding No. 2020-001 – Lack of Segregation of Duties

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The City of Castlewood has limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of lack of segregation of duties. This is a continuing audit comment.

Cause: The City has insufficient number of staff to adequately separate duties.

Effect: As a result, a misappropriation of assets and errors could occur in the financial reporting process and not detected.

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

Views of Responsible Officials: Management agrees with the finding and recommendations. They will monitor internal controls by reviewing all bills presented for payment, and review budget to actual reports. A council member will review cash reconciliations.

Finding No. 2020-002 – Preparation of Financial Statements and Footnotes

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

Condition: The City of Castlewood requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2020.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes.

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

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk because of cost or other considerations.

Views of Responsible Officials: Management agrees with the finding and recommendations.

City of Castlewood
Schedule of Current Audit Findings
For the Year Ended December 31, 2021

Schedule of Current Audit Findings

Internal Control-Related Findings – Material Weaknesses:

Finding No. 2021-001 – Lack of Segregation of Duties

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. (This is the 9th consecutive audit report in which this finding has appeared.)

Condition: The City of Castlewood has limited number of office personnel, and accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of lack of segregation of duties. This is a continuing audit comment.

Cause: The City has insufficient number of staff to adequately separate duties.

Effect: As a result, a misappropriation of assets and errors could occur in the financial reporting process and not detected.

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

Views of Responsible Officials: Management agrees with the finding and recommendations. They will monitor internal controls by reviewing all bills presented for payment, and review budget to actual reports. A council member will review cash reconciliations.

Finding No. 2021-002 – Preparation of Financial Statements, and Footnotes

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

Condition: The City of Castlewood requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2021.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes.

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

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk because of cost or other considerations.

Views of Responsible Officials: Management agrees with the finding and recommendations.



Independent Auditor's Report

To the City Council
City of Castlewood, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the City of Castlewood, South Dakota (City), as of December 31, 2021, and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, and each major fund of the City of Castlewood 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 Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City 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 audit opinions.

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 City'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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City's basic financial statements. The Budgetary Comparison Schedule, Schedule of Changes in Long-Term Debt, and the Schedule of the City'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 Budgetary Comparison Schedule, the Schedule of Changes in Long-Term Debt, and the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) is 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 September 15, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CIO of LLC".

Huron, South Dakota
September 15, 2023

City of Castlewood
Statement of Net Position – Modified Cash Basis
December 31, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 1,322,866	\$ 1,152,618	\$ 2,475,484
Investments	220,351	47,072	267,423
Total Assets	<u>\$ 1,543,217</u>	<u>\$ 1,199,690</u>	<u>\$ 2,742,907</u>
Net Position:			
Debt services	\$ --	\$ 47,072	\$ 47,072
Unrestricted	1,543,217	1,152,618	2,695,835
Total Net Position	<u>\$ 1,543,217</u>	<u>\$ 1,199,690</u>	<u>\$ 2,742,907</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

City of Castlewood
Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:						
Governmental Activities:						
General government	\$ 95,375	\$ --	\$ 8,634	\$ (86,741)	\$ --	\$ (86,741)
Public safety	37,371	200	--	(37,171)	--	(37,171)
Public works	121,313	--	--	(121,313)	--	(121,313)
Culture and recreation	24,336	12,651	--	(11,685)	--	(11,685)
Conservation and development	83,055	--	--	(83,055)	--	(83,055)
Miscellaneous	--	11,731	100	11,831	--	11,831
Total Governmental Activities	<u>361,450</u>	<u>24,582</u>	<u>8,734</u>	<u>(328,134)</u>	<u>--</u>	<u>(328,134)</u>
Business-type Activities:						
Water	124,174	128,268	57,314	--	61,408	61,408
Sewer	41,719	104,271	--	--	62,552	62,552
Solid Waste	53,543	69,202	--	--	15,659	15,659
Golf Course	219,135	220,867	--	--	1,732	1,732
Total Business-Type Activities	<u>438,571</u>	<u>522,608</u>	<u>57,314</u>	<u>--</u>	<u>141,351</u>	<u>141,351</u>
Total Primary Government	<u>\$ 800,021</u>	<u>\$ 547,190</u>	<u>\$ 66,048</u>	<u>(328,134)</u>	<u>141,351</u>	<u>(186,783)</u>
General Revenues:						
Taxes:						
*The City does not have interest expense related to the functions presented above. This amount includes indirect interest	Property tax			285,853	--	285,853
	Sales tax			168,872	--	168,872
	State shared revenues			52,744	--	52,744
	Unrestricted investment earnings			18,447	6	18,453
	Miscellaneous revenue			31,292	--	31,292
	Total General Revenues and Transfers			<u>557,208</u>	<u>6</u>	<u>557,214</u>
	Change in Net Position			229,074	141,357	370,431
	Net Position-Beginning of Year			<u>1,314,143</u>	<u>1,058,333</u>	<u>2,372,476</u>
	Net Position-End of Year			<u>\$ 1,543,217</u>	<u>\$ 1,199,690</u>	<u>\$ 2,742,907</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

City of Castlewood
 Balance Sheet – Modified Cash Basis – Governmental Funds
 December 31, 2021

	<u>General Fund</u>	<u>1st Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 500,441	\$ 356,431	\$ 465,994	\$ 1,322,866
Investments	220,351	--	--	220,351
Total Assets	<u>720,792</u>	<u>356,431</u>	<u>465,994</u>	<u>1,543,217</u>
Fund Balances:				
Committed	--	356,431	465,994	822,425
Unassigned	720,792	--	--	720,792
Total Fund Balances	<u>\$ 720,792</u>	<u>\$ 356,431</u>	<u>\$ 465,994</u>	<u>\$ 1,543,217</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

City of Castlewood
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Modified Cash Basis – Governmental Funds
For the Year Ended December 31, 2021

	<u>General Fund</u>	<u>1st Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
General property taxes	\$ 285,264	\$ --	\$ --	\$ 285,264
General sales and use taxes	--	84,436	84,436	168,872
Penalties and interest on delinquent taxes	589	--	--	589
Licenses and permits	5,775	--	--	5,775
Intergovernmental:				
State grants	8,634	--	--	8,634
State shared revenues:				
Bank franchise tax	2,847	--	--	2,847
Prorate license fees	2,520	--	--	2,520
Liquor tax reversion	4,730	--	--	4,730
Motor vehicle licenses	18,108	--	--	18,108
Local government highway and bridge fund	22,744	--	--	22,744
County shared revenues:				
County road tax	1,555	--	--	1,555
County wheel tax	240	--	--	240
Charges for goods and services				
Culture and recreation	12,651	--	--	12,651
Fines and forfeits				
Court fines and costs	200	--	--	200
Miscellaneous revenue:				
Investment earnings	6,356	12,091	--	18,447
Rentals	4,135	--	--	4,135
Contributions and donations from private sources	100	--	--	100
Liquor operating agreement income	5,956	--	--	5,956
Other	5,597	21,560	--	27,157
Total Revenue	<u>\$ 388,001</u>	<u>\$ 118,087</u>	<u>\$ 84,436</u>	<u>\$ 590,524</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

City of Castlewood
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Modified Cash Basis – Governmental Funds
For the Year Ended December 31, 2021 (Continued)

	<u>General Fund</u>	<u>1st Cent Sales Tax Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Total Governmental Funds</u>
Expenditures:				
Current:				
General government:				
Legislative	\$ 65,825	\$ --	\$ --	\$ 65,825
Elections	16	--	--	16
Financial administration	26,289	--	--	26,289
Other	3,245	--	--	3,245
Public safety:				
Police	37,371	--	--	37,371
Public works:				
Highways and streets	105,051	--	16,262	121,313
Recreation	16,852	--	--	16,852
Libraries	7,484	--	--	7,484
Conservation and development:				
Economic development and assistance	--	83,055	--	83,055
Total Expenditures	<u>262,133</u>	<u>83,055</u>	<u>16,262</u>	<u>361,450</u>
Net Change in Fund Balance	125,868	35,032	68,174	229,074
Fund Balance - Beginning of Year	<u>594,924</u>	<u>321,399</u>	<u>397,820</u>	<u>1,314,143</u>
Fund Balance - End of Year	<u>\$ 720,792</u>	<u>\$ 356,431</u>	<u>\$ 465,994</u>	<u>\$ 1,543,217</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

City of Castlewood

Statement of Net Position – Modified Cash Basis – Proprietary Funds
December 31, 2021

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	
Assets:					
Cash and cash equivalents	\$ 591,453	\$ 481,397	\$ 16,199	\$ 63,569	\$ 1,152,618
Investments	23,536	23,536	--	--	47,072
Total Assets	<u>\$ 614,989</u>	<u>\$ 504,933</u>	<u>\$ 16,199</u>	<u>\$ 63,569</u>	<u>\$ 1,199,690</u>
Net Position:					
Restricted Net Assets					
Restricted for:					
Revenue Bond Debt Service	\$ 23,536	\$ 23,536	\$ --	\$ --	\$ 47,072
Unrestricted	591,453	481,397	16,199	63,569	1,152,618
Total Net Position	<u>\$ 614,989</u>	<u>\$ 504,933</u>	<u>\$ 16,199</u>	<u>\$ 63,569</u>	<u>\$ 1,199,690</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

City of Castlewood

Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis – Proprietary Funds
For the Year Ended December 31, 2021

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	
Operating Revenues:					
Charges for goods and services	\$ 127,096	\$ 104,271	\$ 64,776	\$ 217,074	\$ 513,217
Other	1,172	--	4,426	3,793	9,391
Total Operating Revenues	<u>128,268</u>	<u>104,271</u>	<u>69,202</u>	<u>220,867</u>	<u>522,608</u>
Operating Expenses:					
Personal services	42,191	775	--	93,055	136,021
Other current expense	67,139	14,980	53,543	61,871	197,533
Supplies & materials	--	--	--	24,750	24,750
Total Operating Expenses	<u>109,330</u>	<u>15,755</u>	<u>53,543</u>	<u>179,676</u>	<u>358,304</u>
Operating Income (Loss)	<u>18,938</u>	<u>88,516</u>	<u>15,659</u>	<u>41,191</u>	<u>164,304</u>
Nonoperating Revenue (Expense)					
Operating grants	57,314	--	--	--	57,314
Investment Earnings	3	3	--	--	6
Capital assets	--	--	--	(36,100)	(36,100)
Debt Service (Principal)	(5,447)	(22,880)	--	(2,999)	(31,326)
Interest Expense	(9,397)	(3,084)	--	(360)	(12,841)
Total Nonoperating Revenue (Expenses)	<u>42,473</u>	<u>(25,961)</u>	<u>--</u>	<u>(39,459)</u>	<u>(22,947)</u>
Change in Net Position	61,411	62,555	15,659	1,732	141,357
Net Position - Beginning of Year	<u>553,578</u>	<u>442,378</u>	<u>540</u>	<u>61,837</u>	<u>1,058,333</u>
Net Position - End of Year	<u>\$ 614,989</u>	<u>\$ 504,933</u>	<u>\$ 16,199</u>	<u>\$ 63,569</u>	<u>\$ 1,199,690</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

City of Castlewood
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds
For the Year Ended December 31, 2021

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	
Cash Flows from Operating Activities:					
Receipt from customers	\$ 128,268	\$ 104,271	\$ 69,202	\$ 220,867	\$ 522,608
Payments to suppliers	(67,139)	(14,980)	(53,543)	(86,621)	(222,283)
Payments to employees	(42,191)	(775)	--	(93,055)	(136,021)
Net Cash Provided by Operating	<u>18,938</u>	<u>88,516</u>	<u>15,659</u>	<u>41,191</u>	<u>164,304</u>
Cash Flows from Capital and Related Financing Activities:					
Capital Contributions	57,314	--	--	--	57,314
Purchase of Capital Assets	--	--	--	(36,100)	(36,100)
Principal Paid on Capital Debt	(5,447)	(22,880)	--	(2,999)	(31,326)
Interest Paid on Capital Debt	(9,397)	(3,084)	--	(360)	(12,841)
Net Cash Provided (Used) by Capital and Related Financing Activities:	<u>42,470</u>	<u>(25,964)</u>	<u>--</u>	<u>(39,459)</u>	<u>(22,953)</u>
Cash Flows from Investing Activities:					
Interest Earnings	<u>3</u>	<u>3</u>	<u>--</u>	<u>--</u>	<u>6</u>
Net Increase in Cash and Cash Equivalents	61,411	62,555	15,659	1,732	141,357
Cash and Cash Equivalents - Beginning of Year	<u>553,578</u>	<u>442,378</u>	<u>540</u>	<u>61,837</u>	<u>1,058,333</u>
Cash and Cash Equivalents - End of Year	<u>\$ 614,989</u>	<u>\$ 504,933</u>	<u>\$ 16,199</u>	<u>\$ 63,569</u>	<u>\$ 1,199,690</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Cash Flows Provided by Operating Activities	<u>\$ 18,938</u>	<u>\$ 88,516</u>	<u>\$ 15,659</u>	<u>\$ 41,191</u>	<u>\$ 164,304</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

1. Summary of Significant Accounting Policies:

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

a. Financial Reporting Entity:

The reporting entity of the City of Castlewood, (City) 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 primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-Wide Financial Statements:

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

Fund Financial Statements:

Fund financial statements of the 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 two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

1. Summary of Significant Accounting Policies: (Continued)

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

The funds of the City's financial reporting entity are described below:

Governmental Funds:

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

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

First Cent Sales Tax Fund – to account for the collection of a 1% sales tax revenue committed by local ordinance to be used for economic development, including the placement of revolving loans to local businesses for expansion and businesses willing to locate in the City of Castlewood. This is a major fund.

Additional Sales Tax Fund – to account for the collection of a 1% sales tax revenue committed by local ordinance to be used for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, public hospitals or non-profit hospitals, with fifty (50) or fewer licensed beds, the transfer to the special 911 fund authorized by SDCL 34-45-12, the purchasing of firefighting vehicles and equipment, debt retirement, and minor or major rehabilitation or reconstruction of streets as defined in the June 1994 South Dakota Department of Transportation Pavement Condition Survey Guide for City Streets. These expenditures may be financed through a sale-lease back agreement. This is a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be 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. Governments should apply each of these criteria in the context of the activities' principal revenue sources.

- a. The activity is financed with debt that is secured solely by 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.)

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

1. Summary of Significant Accounting Policies: (Continued)

- b. Laws or regulations require that the activity's costs of providing service, 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 (SDCL 9-47-1). This is a major fund.

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

Solid Waste Fund – financed primarily by user charges, this fund accounts for the collection and disposal of solid waste. (SDCL 9-32011 and 34A-6) This is a major fund.

Golf Course Fund – Financed primarily by user charges, this fund accounts for the operation maintenance of the City golf course. This is a major fund.

c. Measurement Focus and Basis of Accounting:

Measurement Focus:

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 City'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.

Government-Wide Financial Statements:

In the government-wide Statements of Net Position and Statements 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 the modified cash basis of accounting.

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

1. Summary of Significant Accounting Policies: (Continued)

Basis of Accounting:

In the government-wide Statements of Net Position and Statements 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 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 City in these financial statements is:

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 City 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 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 investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

1. Summary of Significant Accounting Policies: (Continued)

e. 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 City 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 City and the related depreciation/amortization are not reported on the financial statements of the City.

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, Revenue Bonds Payable.

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 City has not elected to modify their cash basis presentation by recording long-term debt or long-term liabilities arising from cash transactions, so any outstanding long-term debt or long-term liabilities are not reported on the financial statements of the City. The City 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 City 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.

g. Program Revenues:

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

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

1. Summary of Significant Accounting Policies: (Continued)

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.

h. 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.

i. Equity Classifications:

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Nonspendable, Restricted, Committed, Assigned" and Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. Application of Net Position:

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

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

1. Summary of Significant Accounting Policies: (Continued)

k. Fund Balance Classification Policies and Procedures:

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

- Nonspendable – includes fund 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 nor committed. Fund Balance may be assigned by the City Council.
- Unassigned – Included 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 City 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 City does not have a formal minimum fund balance policy.

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

<u>Special Revenue Fund</u>	<u>Revenue Source</u>
First Cent Sales Tax Fund	1% Sales Tax
Additional Sales Tax Fund	1% Sales Tax

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

2. Violations of Finance-Related Legal and Contractual Provisions:

The City is prohibited by statute from spending in excess of appropriated expenditures amounts at the department level. This City did not have any significant overdrafts of the expenditures compared to appropriations for 2021.

3. Deposits and Investments Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk:

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

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 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 City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2021, the investments reported in the financial statements consist of only certificates of deposit.

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2021, the City deposits in financial institutions were not exposed to custodial credit risk.

Concentration of Credit Risk – The City places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The City does not have a formal investment policy that limits investment Maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

3. Deposits and Investments Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk: (Continued)

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City’s policy is to credit all income from deposits and investments to the General Fund, except for the investment income related to the revolving loans issued through the First Cent Sales Tax Fund for economic development and the interest income related to the savings account set up for the City for the debt service requirements for the Water and Sewer funds. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income except where legal or contractual requirements require investment income to be credited to a fund other than the one associated with the assets. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities.

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

5. Direct Borrowing:

The City is leasing (5) pre-owned 2014 Club Car Precedent gas golf cars for 66 months, with payments of 420.30 per month for (6) months per year (May through October) with payments being made from the Golf Fund. Final lease payments are in 2023.

The following are the minimum payments on existing Direct Borrowings:

<u>Year</u>	<u>Golf Course Fund</u>
2022	\$ 2,522
2023	2,522
Total	<u>\$ 5,044</u>

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

6. Restricted Net Position:

Restricted Net Position for the year ended December 31, 2021 was as follows:

Major Purpose	12/31/2021
Debt service for Water	\$ 23,536
Debt service for Sewer	23,536
Total restricted net position	\$ 47,072

7. 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 hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employee of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 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, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

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

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service.

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

7. Pension Plan: (Continued)

At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater 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 City's share of contributions to the SDRS for the fiscal years ended December 31, 2021, 2020, and 2019, equal to the required contributions each year, were as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 7,849
2020	8,225
2019	8,002

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

7. Pension Plan: (Continued)

Pension Asset:

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

Proportionate share of net position restricted for pension benefits	\$ 776,933
Less proportionate share of total pension liability	<u>819,842</u>
Proportionate share of net pension (asset)	<u><u>\$ (42,909)</u></u>

At December 31, 2021, the City reported a liability for its proportionate share of the net pension liability (asset) of \$(42,909). The net pension asset was measured as of June 30, 2021, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the City's proportion was 0.00560300%, which is a decrease of -0.00008340% 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%
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% of the RP-2014 Mortality Table, adjusted to 2006 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.

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).

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

7. Pension Plan: (Continued)

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	0.9%
Total	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension asset was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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 (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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension liability (asset)	\$ 69,481	\$ (42,909)	\$ (134,144)

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

7. Pension Plan: (Continued)

Pension Plan Fiduciary Net Position:

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

8. Significant Contingencies – Litigation:

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

9. Risk Management:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2021, the City managed its risks as follows:

Employee Health Insurance:

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. Under the U.S Health Care Law, it is no longer allowed for the insurance companies to set a dollar limit on essential health benefits for either annual or lifetime coverage.

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under an occurrence-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, automobile liability, and official liability.

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed.

City of Castlewood
Notes to the Modified Cash Basis Financial Statements
December 31, 2021

9. Risk Management: (Continued)

The prior policy provided the departing member with such a partial refund because the departing member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing member pursuant to the revised IGC.

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

Workers' Compensation:

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

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

Unemployment Benefits:

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

During the year ended December 31, 2021, no claims for unemployment benefits were paid. At December 31, 2021, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Supplemental Information

City of Castlewood
 Budgetary Comparison Schedule – Modified Cash Basis – General Fund
 For the Year Ended December 31, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues (inflows):				
Taxes:				
General property tax	\$ 286,000	\$ 286,000	\$ 285,264	\$ (736)
Penalties and interest on delinquent taxes	600	600	589	(11)
Licenses and permits	3,500	3,500	5,775	2,275
Intergovernmental Revenue:				
State Grants	--	--	8,634	8,634
State Shared Revenues:				
Bank Franchise Tax	2,000	2,000	2,847	847
Prorate License Fees	2,200	2,200	2,520	320
Liquor Tax Reversion (25%)	4,000	4,000	4,730	730
Motor Vehicle Licenses	16,500	16,500	18,108	1,608
Local Government Highway and Bridge Fund	21,000	21,000	22,744	1,744
County shared revenues:				
County road tax(25%)	1,550	1,550	1,555	5
County Wheel Tax	230	230	240	10
Other	60	60	--	(60)
Charges for goods and services:				
Culture and recreation	14,000	14,000	12,651	(1,349)
Fines and forfeits				
Court fines and costs	100	100	200	100
Miscellaneous revenue:				
Investment income	3,400	3,400	6,356	2,956
Rentals	4,500	4,500	4,135	(365)
Contributions and Donations from Private Sources	2,000	2,000	100	(1,900)
Liquor Operation Agreement Income	6,000	6,000	5,956	(44)
Other	6,000	6,000	5,597	(403)
Total revenue	<u>373,640</u>	<u>373,640</u>	<u>388,001</u>	<u>14,361</u>
Expenditures (Outflows):				
General government:				
Legislative	66,840	66,840	65,825	1,015
Contingency	9,235	9,235	--	9,235
Elections	--	--	16	(16)
Financial administration	27,800	27,800	26,289	1,511
Other	--	--	3,245	(3,245)
Public safety:				
Police	40,500	40,500	37,371	3,129
Public works:				
Highway and Streets	196,855	196,855	105,051	91,804
Culture and recreation				
Recreation	23,175	23,175	16,852	6,323
Parks	--	--	--	--
Libraries	9,235	9,235	7,484	1,751
Conservation and development				
Debt service	80,000	80,000	--	80,000
Total Expenditures	<u>453,640</u>	<u>453,640</u>	<u>262,133</u>	<u>191,507</u>
Net Change in Fund Balance	(80,000)	(80,000)	125,868	205,868
Beginning Budgetary Fund Balance	<u>594,924</u>	<u>594,924</u>	<u>594,924</u>	<u>--</u>
Ending Budgetary Fund Balance	<u>\$ 514,924</u>	<u>\$ 514,924</u>	<u>\$ 720,792</u>	<u>\$ 205,868</u>

The accompanying Notes to the Required Supplementary Information are an integral part of this statement.

City of Castlewood

Budgetary Comparison Schedule – Modified Cash Basis – First Cent Sales Tax Fund
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (inflows):				
Taxes:				
General sales and use tax	\$ 80,000	\$ 80,000	\$ 84,436	\$ 4,436
Miscellaneous revenue:				
Investment income	10,000	10,000	12,091	2,091
Other	25,000	25,000	21,560	(3,440)
Total revenue	<u>115,000</u>	<u>115,000</u>	<u>118,087</u>	<u>3,087</u>
Expenditures (Outflows):				
Conservation and development:				
Economic development and assistance	99,985	254,985	83,055	171,930
Total Expenditures	<u>99,985</u>	<u>254,985</u>	<u>83,055</u>	<u>171,930</u>
Net Change in Fund Balance	15,015	(139,985)	35,032	175,017
Beginning Budgetary Fund Balance	<u>321,399</u>	<u>321,399</u>	<u>321,399</u>	<u>--</u>
Ending Budgetary Fund Balance	<u>\$ 336,414</u>	<u>\$ 181,414</u>	<u>\$ 356,431</u>	<u>\$ 175,017</u>

The accompanying Notes to the Required Supplementary Information are an integral part of this statement.

City of Castlewood

Budgetary Comparison Schedule – Modified Cash Basis – Additional Sales Tax Fund
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues (inflows):				
Taxes:				
General sales and use tax	\$ 80,000	\$ 80,000	\$ 84,436	\$ 4,436
Total revenue	<u>80,000</u>	<u>80,000</u>	<u>84,436</u>	<u>4,436</u>
Expenditures (Outflows):				
Public works:				
Highways and Streets	181,800	181,800	16,262	165,538
Total Expenditures	<u>181,800</u>	<u>181,800</u>	<u>16,262</u>	<u>165,538</u>
Net Change in Fund Balance	(101,800)	(101,800)	68,174	169,974
Beginning Budgetary Fund Balance	<u>397,820</u>	<u>397,820</u>	<u>397,820</u>	<u>--</u>
Ending Budgetary Fund Balance	<u>\$ 296,020</u>	<u>\$ 296,020</u>	<u>\$ 465,994</u>	<u>\$ 169,974</u>

The accompanying Notes to the Required Supplementary Information are an integral part of this statement.

City of Castlewood
Notes to the Budgetary Comparison Schedules
December 31, 2021

1. Budgets and Budgetary Accounting:

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in 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 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.

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.

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

City of Castlewood
Schedule of Changes in Long-Term Debt
For the Year Ended December 31, 2021

Debt payable at December 31, 2021 is comprised of the following:

Indebtedness	Long-Term Debt 01/01/21	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/21	Interest
Proprietary Funds					
Water Utility Improvement Revenue Bonds - Issued 9/19/2002; final maturity 2/19/2042; interest rate 4.75%; paid from the Water Fund.	\$ 200,319	\$ --	\$ 5,447	\$ 194,872	\$ 9,397
Wastewater Treatment Improvement Revenue Bonds -issued 2/20/2002; final maturity 7/15/2023; interest rate 3.5%, paid from the Sewer Fund.	39,302	--	13,858	25,444	1,195
Wastewater Treatment Improvement Revenue Bonds -issued 8/15/2006; final maturity 1/15/2027; interest rate 3.5%, paid from the Sewer Fund.	61,489	--	9,022	52,467	1,889
Direct Borrowing- issued 2/12/18; interest rate 4.62%; paid from the Golf Course Fund	9,147	--	2,999	6,148	360
Total Long-Term Debt	<u>\$ 310,257</u>	<u>\$ --</u>	<u>\$ 31,326</u>	<u>\$ 278,931</u>	<u>\$ 12,841</u>

The annual debt service requirements are as follows:

	Principal	Interest
2022	\$ 32,542	\$ 11,624
2023	29,741	10,383
2024	16,246	9,509
2025	16,879	8,876
2026	17,538	8,217
Thereafter	165,985	67,613
	<u>\$ 278,931</u>	<u>\$ 116,222</u>

City of Castlewood
Schedule of the City's Proportionate Share of the Net Pension Asset

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability/asset	0.0056030%	0.0064370%	0.0059250%	0.0057195%	0.0062736%	0.0063368%	0.0049862%
City's proportionate share of net pension liability (asset)	\$ (42,909)	\$ (280)	\$ (628)	\$ (135)	\$ (569)	\$ 21,405	\$ (21,148)
City's covered-employee payroll	\$ 129,640	\$ 141,272	\$ 125,980	\$ 120,407	\$ 127,471	\$ 120,496	\$ 91,036
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.10%	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 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.

* The amounts presented for each year were determined as the measurement date of the collective net pension liability (asset) which is 6/30. Until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Castlewood
Notes to Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability (Asset)
As of December 31, 2021

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 one plan provision change 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.