

CITY OF LAKE NORDEN
LAKE NORDEN, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2021
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042

CITY OF LAKE NORDEN
LAKE NORDEN, SOUTH DAKOTA
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NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
City of Lake Norden
Lake Norden, South Dakota

INDEPENDENT AUDITOR'S REPORT

Disclaimer, Qualified and Unmodified Opinions:

I have audited the accompanying modified cash basis financial statements of governmental activities, business-type activities, and each major fund of the City of Lake Norden (City), Hamlin County, South Dakota as of and for the year ended December 31, 2021, and the related notes to the financial statements. I was not engaged to audit the modified cash basis financial statements of the discretely presented component unit. These modified cash basis financial statements collectively comprise the City of Lake Norden's basic modified cash basis financial statements as listed in the table of contents.

Summary of Opinions:

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Unmodified
Discretely Presented Component Unit	Disclaimer
General Fund	Qualified
Sales Tax Debt Service Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Solid Waste Fund	Unmodified

Disclaimer of Opinion on the Discretely Presented Component Unit:

Because of the significance of the matter described in the Basis for Disclaimer of Opinion, Qualified Opinions and Unmodified Opinions section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the modified cash basis financial statements of the discretely presented component unit of the City of Lake Norden, Hamlin County, South Dakota. Accordingly, I do not express an opinion on these modified cash basis financial statements.

Qualified Opinion on Governmental Activities and the General Fund:

In my opinion, except for the effects of the matter described in the Basis for Disclaimer of Opinion, Qualified Opinions and Unmodified Opinions section of my report, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of governmental activities and the general fund of the City of Lake Norden, Hamlin County, South Dakota as of December 31, 2021, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in note 1-c.

Unmodified Opinions on Business-type Activities, Sales Tax Debt Service Fund, Water Fund, Sewer Fund, and Solid Waste Fund:

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial statements of business-type activities, sales tax debt service fund, water fund, sewer fund, and solid waste fund of the City of Lake Norden, Hamlin County, South Dakota as of December 31, 2021, and the respective changes in the modified cash basis 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.

Basis for Disclaimer of Opinion, Qualified Opinions and Unmodified Opinions:

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the City of Lake Norden, South Dakota and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified and unmodified audit opinions.

Matter Giving Rise to Disclaimer of Opinion on the Discretely Presented Component Unit:

The modified cash basis financial statements of the Lake Norden Housing & Redevelopment Commission (LN.HRC) have not been audited, and I was not engaged to audit LN.HRC's modified cash basis financial statements as part of my audit of the City of Lake Norden's basic modified cash basis financial statements. LN.HRC's financial activities are included in the City of Lake Norden's basic modified cash basis financial statements as the discretely presented component unit and represents 100% of cash, net position, receipts and disbursements of the City of Lake Norden's discretely presented component unit.

Matter Giving Rise to the Qualified Opinion on Governmental Activities and the General Fund:

General fund total debits was \$65,550 more than total credits. An arbitrary credit of this amount was made to miscellaneous receipts to balance governmental activities and the general fund.

Emphasis of Matter - Basis of Accounting

I draw attention to Note 1-c of these financial statements, which describes the basis of accounting. These 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. My qualified and unmodified opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements:

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in note 1-c, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 of Lake Norden's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements:

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my 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 generally accepted auditing standards will 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 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*, I:

- > 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 of Lake Norden'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Lake Norden's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Other Matters - Supplementary Information (no opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of lake Norden, South Dakota basic financial statements. The accompanying budgetary comparison schedule (page 27 to 28) and pension schedules (page 29 to 30) are presented for the purpose 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 modified cash basis of accounting financial statements.

I have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic modified cash basis of accounting financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Supplementary Information: (Opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Lake Norden's financial statements. The schedule of changes in long-term liabilities (page 25) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

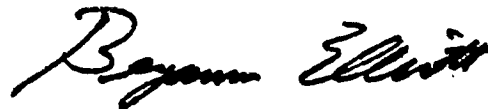
Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the modified cash basis of accounting financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of changes in long-term liabilities is fairly stated, in all material respects, in relation to the modified cash basis of accounting financial statements as a whole.

Other Reporting Required by Government Auditing Standards:

In accordance with *Government Auditing Standards*, I have also issued my report dated June 22, 2023 (page 32) on my consideration of the City of Lake Norden's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of my 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 of Lake Norden's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

June 22, 2023



CITY OF LAKE NORDEN

STATEMENT OF NET POSITION
 MODIFIED CASH BASIS
 AS OF DECEMBER 31, 2021

	Primary Government			NOT AUDITED Component Unit 6-30-2021
	Governmental Activities	Business- Type Activities	Total	
Assets:				
Cash and cash equivalents	1,414,565	329,990	1,744,555	197,114
Certificates of deposit	47,749		47,749	
Restricted assets:				
Cash and cash equivalents	27,502	554,449	581,951	3,183
Total assets	1,489,816	884,439	2,374,255	200,297
Net position:				
Restricted for:				
Debt service:				
Surcharge fees		531,814	531,814	
Debt reduction	25,802		25,802	
Equipment replacement		3,000	3,000	
Deposits	1,700	19,635	21,335	3,183
Unrestricted	1,462,314	329,990	1,792,304	197,114
Total net position	1,489,816	884,439	2,374,255	200,297

See accompanying notes.

CITY OF LAKE NORDEN

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2021

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position			NOT AUDITED Component Unit 6-30-2021
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
Primary government:								
Governmental activities:								
General government	194,724	3,945	53,518		-137,261		-137,261	
Public safety	169,030				-169,030		-169,030	
Public works	232,674				-232,674		-232,674	
Health and welfare	4,576				-4,576		-4,576	
Culture and recreation	146,650	1,332			-145,318		-145,318	
Economic development	2,211,751				-2,211,751		-2,211,751	
Debt service	23,268				-23,268		-23,268	
Other	21,211				-21,211		-21,211	
Liquor operating agreements	300	5,471			5,171		5,171	
Total governmental activities	3,004,184	10,748	53,518	0	-2,939,918	0	-2,939,918	
Business-type activities:								
Water	1,445,415	688,487				-756,928	-756,928	
Sewer	574,015	201,413		1,146		-371,456	-371,456	
Solid waste	32,694	30,198				-2,496	-2,496	
Total business-type activities	2,052,124	920,098	0	1,146	0	-1,130,880	-1,130,880	
Total primary government	5,056,308	930,846	53,518	1,146	-2,939,918	-1,130,880	-4,070,798	
Component unit activity:								
Lake Norden Housing & Redev Commission	110,959	70,285	71,595	4,106			35,027	
General receipts:								
Taxes:								
Property taxes					219,944		219,944	
Sales taxes					911,171		911,171	
State shared receipts					31,897		31,897	
County shared receipts					4,588		4,588	
Interest and dividends received					5,109		5,109	
Rentals and cable franchise					36,224		36,224	
Donations					28,732		28,732	
Miscellaneous receipts					67,362		67,362	
Loan proceeds - water, bank					0	816,056	816,056	
Loan proceeds - sewer, CWSRF-01					0	4,582	4,582	
Loan proceeds - sewer, CWSRF-02					0	463,105	463,105	
Compensation for damaged property					3,368		3,368	
Transfers					-140,000	140,000	0	
Total general receipts and transfers					1,168,395	1,423,743	2,592,138	
Change in net position					-1,771,523	292,863	-1,478,660	
Net position:								
January 1, 2021					3,261,339	591,576	3,852,915	
December 31, 2021					1,489,816	884,439	2,374,255	

See accompanying notes.

CITY OF LAKE NORDEN

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

	General Fund	Sales Tax Debt Service Fund	Total
	-----	-----	-----
Assets:			
Cash and cash equivalents	1,414,565		1,414,565
Certificates of deposit	47,749		47,749
Restricted assets:			
Cash and cash equivalents	1,700	25,802	27,502
	-----	-----	-----
	1,464,014	25,802	1,489,816
Total assets	=====	=====	=====
 Fund balances:			
Nonspendable			0
Restricted	1,700	25,802	27,502
Committed			0
Assigned	160,969		160,969
Unassigned	1,301,345		1,301,345
	-----	-----	-----
Total fund balances	1,464,014	25,802	1,489,816*
	=====	=====	=====

* Total net position on government-wide
 statement of net position.

See accompanying notes.

CITY OF LAKE NORDEN
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
BALANCE -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS
FOR THE ONE YEAR ENDING DECEMBER 31, 2021

Receipts:	Sales Tax		Total
	General Fund	Debt Service Fund	
Receipts from local sources:			
Taxes:			
Ad valorem taxes	219,944		219,944
General sales and use taxes	885,575	25,596	911,171
Licenses and permits:	3,302		3,302
Intergovernmental receipts:			
Federal grants	53,518		53,518
State shared receipts:			
Bank franchise tax	3,352		3,352
Commercial prorate	1,498		1,498
Liquor tax reversion	3,596		3,596
Motor vehicle licenses (5%)	10,763		10,763
Highway and bridge	12,688		12,688
County shared receipts:			
County road	864		864
Wheel	143		143
Police contract	3,112		3,112
PILOT	469		469
Charges for goods and services:			
Culture and recreation	1,332		1,332
Fines and forfeits:	643		643
Miscellaneous receipts:			
Interest and dividends received	5,109		5,109
Rents and cable franchise	36,224		36,224
Donations	28,732		28,732
Liquor	5,471		5,471
Other	67,362		67,362
Total receipts	1,343,697	25,596	1,369,293
Disbursements:			
Current:			
General government:			
Mayor and Council	19,579		19,579
Elections	19		19
Financial administration	141,745		141,745
Government buildings and other	33,381		33,381
Public safety:			
Police	115,697		115,697
Fire	1,289		1,289
Code enforcement	2,537		2,537
Public works:			
Highways and streets	225,651		225,651
Rubble site	7,023		7,023
Health and welfare:			
Animal control	900		900
West Nile			0
Clinic building	3,676		3,676
Culture and recreation:			
Recreation	24,527		24,527
Community organizations	4,800		4,800
Parks	55,316		55,316
Community center	37,486		37,486
Museum	2,172		2,172
Conservation and development:			
Economic development	2,211,751		2,211,751
Debt service: principal		8,203	8,203
interest		15,065	15,065
Other	21,211		21,211
Liquor	300		300
Capital outlay	71,856		71,856
Total disbursements	2,980,916	23,268	3,004,184
Excess of receipts over (under) disbursements	-1,637,219	2,328	-1,634,891
Other financing sources (uses):			
Transfer out	-140,000		-140,000
Compensation for property damage	3,368		3,368
Net change in fund balance	-1,773,851	2,328	-1,771,523*
Fund balance:			
December 31, 2020	3,237,865	23,474	3,261,339
December 31, 2021	1,464,014	25,802	1,489,816

* Total change in net position on government-wide statement of activities

See accompanying notes.

CITY OF LAKE NORDEN

STATEMENT OF NET POSITION
 MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 AS OF DECEMBER 31, 2021

	Water Fund	Sewer Fund	Solid Waste Fund	Total Enterprise Funds
	-----	-----	-----	-----
Assets:				
Cash and cash equivalents	325,983		4,007	329,990
Restricted cash:				
Cash and cash equivalents	356,695	197,754		554,449
	-----	-----	-----	-----
Total assets	682,678	197,754	4,007	884,439
	=====	=====	=====	=====
 Net position:				
Restricted for:				
Debt service:				
Surcharge fees	334,060	197,754		531,814
Equipment replacement	3,000			3,000
Deposits	19,635			19,635
Unrestricted	325,983		4,007	329,990
	-----	-----	-----	-----
Total net position	682,678	197,754	4,007	884,439
	=====	=====	=====	=====

See accompanying notes.

CITY OF LAKE NORDEN

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN NET POSITION -- ENTERPRISE FUNDS
 MODIFIED CASH BASIS
 FOR THE ONE YEAR ENDING DECEMBER 31, 2021

	Water Fund	Sewer Fund	Solid Waste Fund	2021 Total
	-----	-----	-----	-----
Operating receipts:				
Charges for goods and services	688,487	201,413	30,198	920,098
	-----	-----	-----	-----
Total operating receipts	688,487	201,413	30,198	920,098
	-----	-----	-----	-----
Operating disbursements:				
Personal services	68,987	11,443		80,430
Other current services	217,874	93,247	1,200	312,321
Cost of goods sold			31,494	31,494
Capital improvements	139,162	418,833		557,995
	-----	-----	-----	-----
Total operating disbursements	426,023	523,523	32,694	982,240
	-----	-----	-----	-----
Net operating receipts (disbursemen	262,464	-322,110	-2,496	-62,142
Nonoperating receipts (disbursements):				
Bank loan proceeds	816,056			816,056
SRF loan proceeds		467,687		467,687
Capital grant		1,146		1,146
Debt service - principal	-934,798	-21,286		-956,084
- interest	-60,772	-22,496		-83,268
- issue cost	-23,822	-6,710		-30,532
	-----	-----	-----	-----
Total nonoperating receipts (disbur	-203,336	418,341	0	215,005
Income (loss) before transfers capital contributions	59,128	96,231	-2,496	152,863
Transfer in	140,000			140,000
	-----	-----	-----	-----
Change in net position	199,128	96,231	-2,496	292,863
Net position:				
December 31, 2020	483,550	101,523	6,503	591,576
	-----	-----	-----	-----
December 31, 2021	682,678	197,754	4,007	884,439
	=====	=====	=====	=====

See accompanying notes.

CITY OF LAKE NORDEN

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE ONE YEAR ENDING DECEMBER 31, 2021

	Water Fund	Sewer Fund	Solid Waste Fund	2021 Total
Cash flows from:	-----	-----	-----	-----
Operating activities:				
Receipts from customers	688,487	201,413	30,198	920,098
Cash paid to employees	-68,987	-11,443		-80,430
Cash paid to suppliers	-217,874	-93,247	-32,694	-343,815
Net cash provided (used) by operating activities	----- 401,626	----- 96,723	----- -2,496	----- 495,853
Noncapital financing activities:				
Transfer in	140,000			140,000
Capital financing activities:				
State grant - CWFCP		1,146		1,146
Bank loan proceeds	816,056			816,056
SRF loan proceeds		467,687		467,687
Cash paid for:				
Water improvements	-139,162			-139,162
Sewer improvements		-418,833		-418,833
Debt payments - principal	-934,798	-21,286		-956,084
- interest	-60,772	-22,496		-83,268
- issue cost	-23,822	-6,710		-30,532
Investing activities:				
Interest received				0
Net increase (decrease) in cash and cash equivalents	----- 199,128	----- 96,231	----- -2,496	----- 292,863
Cash and cash equivalents:				
December 31, 2020	483,550	101,523	6,503	591,576
December 31, 2021	----- 682,678	----- 197,754	----- 4,007	----- 884,439
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	262,464	-322,110	-2,496	-62,142
Add back capital outlay	139,162	418,833		557,995
Net cash provided (used) by operating activities	----- 401,626	----- 96,723	----- -2,496	----- 495,853

Noncash investing, capital, and
 financing activities: None

See accompanying notes.

CITY OF LAKE NORDEN
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in note 1.c, 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. Reporting Entity:

The funds included in this report are controlled by or dependent upon the City of Lake Norden's (City) governing board.

At December 31, 2021 City officials are:

Governing Board:	Finance Officer:
Jason Aho, Mayor	Kendra Rickard
Cameron Larson, President	Attorney:
Janet Andrews	Boyd Law Firm
Brian Jacobsen	
John Layman	
Dorene Lemme	
Kim St. John	

The City's financial reporting entity is composed of the following:

Primary government: City of Lake Norden
Component unit: Lake Norden Housing & Redevelopment Commission

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Lake Norden consists of (1) 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; (2) those organizations for which the primary government is financially accountable; and (3) 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the Lake Norden Housing and Redevelopment Commission (LN.HRC) is a component unit of the City of Lake Norden and represents 100% of the balances and activity of the discretely presented component unit column of these financial statements.

LNHRC is a Housing and Redevelopment Commission, established under SDCL 11-7-7 to provide housing through the operation of a rental housing complex. Financial information about LN.HRC is available at Lake Norden's City Hall.

b. Basis of Presentation:

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds (if any). 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 good and services.

The Statement of Net Position reports all cash assets. Net position is displayed in two components: restricted (distinguishing between major categories of restrictions) and unrestricted.

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

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its cash, net position, receipts and disbursements. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

- a. Total cash, receipts or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (cash, receipts or disbursements) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The City has elected to classify all of its funds as major funds.

Funds of the City are described below within their respective fund type:

Governmental Funds

General Fund - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always a major fund.

Debt Service Funds - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The City has the following debt service fund:

Sales Tax Debt Service Fund - A fund allowed by law to account for the accumulation of sales tax to use for payment of principal and interest on the City's 2010 sales tax revenue bond. The sales tax debt service fund is a major fund.

Enterprise Funds (Business-Type)

Enterprise Funds - Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Lake Norden. The water fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the own of Lake Norden. The sewer fund is a major fund.

Solid Waste Fund - A fund allowed by SDCL 9-32-11 and SDCL 9-34A-6 to provide garbage services to customers within the City of Lake Norden. The solid waste fund is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

The City of Lake Norden has no fiduciary funds.

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 (disbursements) 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 of accounting, which is a basis of accounting other than US-GAAP. Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, 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 described 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.

Basis of Accounting:

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, and major fund 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 receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of net position reports only cash and cash equivalents. 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 cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are certificates of deposit (if any) whose maturity when purchased is more than 90 days.

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 and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied US-GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise funds and fiduciary funds (if any) would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Cash and Cash Equivalents:

For purposes 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 (if any) in open-end mutual funds shares or similar investments in external investment pools, are also considered to be cash equivalents.

The City's certificates of deposit have a maturity of more than three months when purchased and are not considered a cash equivalent.

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Program Receipts and General Receipts:

Program Receipts:

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

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contribution - 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 contribution - These arise from mandatory and voluntary non-exchange transactions with other government, organization, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

General Receipts:

General receipts include all receipts not specifically earmarked for a specific program. General receipts include all taxes, interest received, unrestricted receipts from federal, state, or county governments, and miscellaneous receipts not related to a program. These receipts are not restricted and can be used for the regular operation of the City.

g. Enterprise Fund Receipt Classifications:

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water, sewer, and solid waste services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, if any, such as grants, operating subsidies, interest received, and transfers in, result from nonexchange transactions.

h. 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 creditor, grantor, 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. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (if any) is reported as "Custodial Net Position".

i. 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 which can be charged to either restricted or unrestricted net position.

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